



Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales

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[Y Pwyllgor Menter a Busnes](#)

[The Enterprise and Business Committee](#)

03/03/2016

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Cofnodir y trafodion yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir trawsgrifiad o'r cyfieithu ar y pryd.

The proceedings are reported in the language in which they were spoken in the committee. In addition, a transcription of the simultaneous interpretation is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Mick Antoniw Bywgraffiad Biography	Llafur Labour
Rhun ap Iorwerth Bywgraffiad Biography	Plaid Cymru The Party of Wales
Mohammad Asghar Bywgraffiad Biography	Ceidwadwyr Cymreig Welsh Conservatives
Jeff Cuthbert Bywgraffiad Biography	Llafur Labour
William Graham Bywgraffiad Biography	Ceidwadwyr Cymreig (Cadeirydd y Pwyllgor) Welsh Conservatives (Committee Chair)
Eluned Parrott Bywgraffiad Biography	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats
David Rees Bywgraffiad Biography	Llafur (yn dirprwyo ar ran Keith Davies) Labour (substitute for Keith Davies)
Joyce Watson Bywgraffiad Biography	Llafur Labour

Eraill yn bresennol
Others in attendance

Jeff Beck	Trefnydd, GMB Organiser, GMB
Dr David Blaney	Chief Executive, Higher Education Funding Council for Wales Prif Weithredwr, Cyngor Cyllido Addysg Uwch Cymru
Tony Brady	Swyddog Cydlynu Rhanbarthol, Unite Regional Co-Ordinating Officer, Unite

Robert Edwards	Prif Drefnydd, Cymuned Lead Organiser, Community
Chris Hagg	Pennaeth Materion Allanol, Celsa Steel Head of External Affairs Celsa Steel
Edwina Hart Bywgraffiad Biography	Aelod Cynulliad, Llafur (Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth) Assembly Member, Labour (the Minister for Economy, Science and Transport)
Celia Hunt	Cyfarwyddwr Datblygu Strategol, Cyngor Cyllido Addysg Uwch Cymru Director of Strategic Development, Higher Education Funding Council for Wales
Dominic King	Pennaeth Polisi a Chynrychiolaeth, UK Steel Head of Policy and Representation, UK Steel
Yr Athro/Professor Ron Loveland	Ymgynghorydd Ynni i Lywodraeth Cymru Energy Advisor to the Welsh Government
Carl Lucas	Swyddog Rhanbarthol, Unite Regional Officer, Unite
Steve McCool	Swyddog Cenedlaethol ar gyfer Steel, Cymuned National Officer for Steel, Community
Tim Morris	Pennaeth Materion Allanol, Tata Steel Europe Head of External Affairs for Tata Steel Europe
Bethan Owen	Cyfarwyddwr Ymgysylltu Sefydliadol, Cyngor Cyllido Addysg Uwch Cymru Director of Institutional Engagement, Higher Education Funding Council for Wales
Sanjay Tohani	Cyfarwyddwr, Liberty Steel Newport Ltd, Liberty House UK Director, Liberty Steel Newport Ltd, Liberty House UK

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance**

Rachel Jones	Clerc Clerk
Mike Lewis	Dirprwy Glerc Deputy Clerk
Ben Stokes	Y Gwasanaeth Ymchwil Research Service
Anne Thomas	Y Gwasanaeth Ymchwil Research Service

*Dechreuodd y cyfarfod am 09:29.
The meeting began at 09:29.*

**Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions**

[1] **William Graham:** Good morning and welcome to this morning's Enterprise and Business Committee. We're looking at pressures facing the steel industry—our first item today. I've received apologies from Dafydd Elis-Thomas, Keith Davies and Gwenda Thomas, and the committee welcomes David Rees, who's substituting for Keith. Thank you very much for coming, David. May I welcome our witnesses and members of the public today? Could I ask Members for any declarations they wish to give?

[2] **David Rees:** Chair, I'm a member of Unite, who are coming in later on, but I also represent the constituency in which the Port Talbot plant exists.

[3] **William Graham:** Thank you very much.

[4] **Jeff Cuthbert:** I'm also a member of Unite the Union.

[5] **William Graham:** Thank you very much.

[6] **Joyce Watson:** I'm also a member of Unite the Union.

[7] **Mick Antoniw:** I'm a member of the GMB.

[8] **William Graham:** Thank you. Any others? Thank you for that.

[9] Now, the meeting is bilingual. Headphones can be used for simultaneous translation from Welsh to English on channel 1, or for amplification on channel 2. The meeting is broadcast and a transcript of the meeting will be published later. May I remind witnesses that there's no need to touch the microphones; they should come on automatically. In the event of a fire alarm, would people please follow directions from the ushers?

09:30

Cynrychiolwyr Diwydiant—Pwysau sy'n Wynebu'r Diwydiant Dur yng Nghymru

Industry Representatives—Pressures Facing the Steel Industry in Wales

[10] **William Graham:** Could I ask each of you to give your name and title for the record, please, starting with Mr Morris?

[11] **Mr Morris:** Tim Morris, head of public affairs for Tata Steel in Europe.

[12] **William Graham:** Thank you.

[13] **Mr Hagg:** Chris Hagg, head of external affairs for Celsa Steel UK.

[14] **Mr King:** Dominic King, head of policy and representation, UK Steel.

[15] **Mr Tohani:** Sanjay Tohani, director of Liberty Steel Newport Ltd.

[16] **William Graham:** Thank you very much. We're trying to obtain a brief summary of the current state of the Welsh/United Kingdom steel industry and to understand what impacts are being felt by those who come to you in the supply chain of the witnesses and the wider steel industry. Could I perhaps have some initial comments on that, perhaps starting with Mr Morris?

[17] **Mr Morris:** Yes. Thank you. And thank you for the interest of the committee in the steel industry.

[18] The steel industry, not just in Wales, and actually not just in the UK, but throughout Europe and, to some extent, the world, currently suffers from

what could be described as a perfect storm of negative forces. There is very significant overcapacity in the Chinese steel industry—perhaps twice the entire demand of the EU-28. It's causing a significant depressing effect on prices throughout the world. Some of the benchmark prices that are important for us in Wales, for example hot-rolled coil, have fallen from, let's say, somewhere around the €550 a tonne mark to somewhere closer to €300 at the start of this year over about an 18-month period. Clearly, it would be difficult for any industry to face those kinds of challenges.

[19] Steel is a relatively easy product, especially in commodity grades, to transport around the world, so impacts that occur globally are felt locally as well. This has had the effect—which, presumably, has prompted this committee to hold this inquiry—of high degrees of pressure in the UK. We're all painfully aware of the situation that occurred in Sahaviriya Steel Industries in Redcar and the number of restructuring initiatives that the steel industry in Wales has gone through. I hope that's a helpful introduction.

[20] **William Graham:** Very helpful.

[21] **Mr Hagg:** I think Tim has given a very good outline of the world situation. If I bring things a little bit closer to home in terms of how we've been faring at Celsa based in Cardiff, particularly one of our major products that we produce here is a product called reinforcing bar, or 're-bar', as it's more commonly known, and it's been well publicised over the last couple of years that we've been suffering from a huge influx of Chinese material, which has been arriving in the UK. To give you a sense of the importance of that growth of material coming from China, on re-bar alone, in 2012, there were zero tonnes coming from China. We had plenty of competition coming from other European competitors, and one or two just outside, on the periphery of Europe. In 2015, the latest figures show that the Chinese influence has taken 50 per cent of the UK market for re-bar. So, a huge increase in their presence in the UK.

[22] **William Graham:** Thank you.

[23] **Mr King:** I would echo what my colleagues say. I think Tim summed it up nicely, in a sense, in calling it a perfect storm, and I think the UK can be seen as the epicentre of that storm. It has domestic policy issues that have been well documented over the last six months around energy costs, procurement, business rates that we've been talking a lot about, and I think, in the UK, we've seen market conditions worsen since six months ago or five

months ago, since the steel summit in October. We've seen prices continue to drop. We're seeing imports from China increase into the UK, and I think that condition, as we see, is worsening in time without urgent action. We called for five urgent actions back in October last year. These weren't meant as something that would take six months, a year to happen; we were expecting them to happen within a month or two. At the moment, we can only say that two, maybe three, of them have actually happened. These weren't our full asks, but they were part of our asks, and without further urgent action from Wales and the UK, I think the situation is quite bleak, going forward.

[24] **William Graham:** Thank you. Mr Tohani.

[25] **Mr Tohani:** Good morning. Again, thank you for taking the time to hear our views and comments on the UK steel industry. Liberty has a background of international steel trading. We've experience; that's our core competency. We entered into the UK market in 2013 with an acquisition of a mill in south Wales in Newport—Liberty Steel Newport. We experienced two years of difficulties to restart the plant, mainly on account of energy costs. We're very much supportive of UK Steel's five asks for the UK steel industry. Again, the main challenges are overcapacity in the market and falling prices, and we'll focus again on what UK Steel are after. Prices have stabilised slightly in the last month, but the outlook, again, for us is not particularly bright. Again, overcapacity is the main problem, imports—I think it's the same challenges across the board.

[26] **William Graham:** Thank you very much. I'd like to thank you also for your written submissions and we note the commercial sensitivity of certain of those items. Thank you very much. Jeff.

[27] **Jeff Cuthbert:** Thank you very much. Good morning. I want to move on to Welsh and UK Government support and can I, by way of introduction, ask you to state what you think the nature of the relationships that the steel industry has with both the Welsh Government and the United Kingdom Government are, and are you satisfied, or not, as the case may be, with the attitudes of those two Governments in terms of the pressures facing you?

[28] **Mr Morris:** Happy to go in the same order? I would first set a context that says the scale and the global nature of the challenges that we face mean that Government action, either at a Cardiff or a London level, can't be regarded as a silver bullet. The scale of the challenge is very significant.

However, it is certainly true to say that Governments at both levels have an important role to play alongside other stakeholders in getting us to a, hopefully, more sustainable position. So, I think, within that, there is no magic lever that someone here or in London can pull that would immediately make these problems go away.

[29] If I start in Cardiff—we're part of the anchor company programme—our experience is that the Welsh Government has been a consistent supporter of the steel industry in general. We feel we have a good dialogue with the Welsh Government and have worked on a number of different initiatives with the Welsh Government. We would also note, I would say, the broad support for the steel sector across the political spectrum in Wales. I think, over the last months, we've seen proposals and initiatives come from the Welsh Conservative group but also Plaid Cymru as well. So, I think our feeling is that the political environment in Wales is supportive of steel and has consistently been so.

[30] I think the UK Government has, perhaps somewhat belatedly, woken up to the crisis conditions affecting the sector. I think it would be fair to say that there has been movement on the five asks that the industry and the trade unions tabled to the UK Government at the steel summit on 16 October in Sheffield. We would characterise progress on those five asks as uneven.

[31] I think the other point to make for both London and Cardiff Governments is that this is quite a dynamic situation. The industry situation has deteriorated since the 16 October summit in terms of further falls in prices and ongoing pressure in terms of imports. So, it's not a stable situation. You can't show up to say, 'We did something on the asks and therefore it's job done.' We, on this side of the table—and I'd be surprised if my colleagues contradict me—have to keep working relentlessly on this, and that's a task for Governments as well, as they, hopefully, come alongside us to try and look for solutions.

[32] **Mr Hagg:** I think Tim has actually summarised it pretty well. We're another anchor company in the Welsh economy and we feel that, over the years, we've had a lot of good support that has come from that direction. I think my criticism probably of the UK Government would be that it's taken them quite a long time to actually come to the party. We've been expressing serious concerns about things like energy costs, for example, for a long period of time. I think it's really taken, unfortunately, the crisis, which was prompted first of all by Sahaviriya Steel Industries plc, and then after that the

job losses at Tata and Caparo. I think that those have really brought the UK Government to the party. I think, again, that the response to the asks of the industry have been a little patchy. We have had some progress. I think, obviously, the energy compensation package is very welcome, but the job on energy isn't done. There is still disparity between energy costs in this country and our closest competitors on the continent, let alone outside the EU.

[33] There's obviously some further work that we've asked for on business rates and now obviously with business rates being devolved, there seems to be some delay over being able to get some movement as far as business rates are concerned. So, that's a key concern of ours as well, which was asked for a number of months ago.

[34] So, I think, in summary, the movement that we've seen in the last months has been very, very welcome, but we've got to understand that this is an industry that is in crisis—it needs immediate recognition of addressing some of the key issues that are there. I think we've exposed the key issues for quite a long period of time and we now do need even more effort. We're not asking for some sort of subsidy that is going to bail out this industry that is failing. All we've ever asked for is to just get us on that level playing field, that even footing, with our key competitors. We think that we've got a proposition that can fight against anybody, but we just need that fair and level playing field.

[35] **Mr King:** I completely agree with Chris and Tim in their comments. I think, in terms of the Welsh Government, the words that have been spoken have been very, very positive. I think there is further action that can be taken, especially around business rates, which have been devolved, whilst understanding that they have only been devolved for a few months and, therefore, this is quite a large decision to make. But in all of the things that we've asked for, it's all about speed.

[36] We're not asking for massive legislative changes; we're asking for things that can happen almost overnight and could be quickly enacted. I think, for the UK, it is coming up to six months now and we haven't seen full action on our initial five asks. They keep almost pushing us into the long grass and saying, 'Oh well, we'll look at this at the next budget' or 'We'll look at this at the next spending review.' I think there needs to be that speed to get these things in action, otherwise further job losses will happen, as we have seen over the last five months. As both Tim and Chris said, there is no silver bullet here. It's not like, 'If you do the five asks, we'll all be rosy and

there'll be a positive future in the long term.' We still believe that there is a positive future, with these changes happening. All we're asking for is a level playing field with our competitors.

[37] **Mr Tohani:** Again, I think Tim summed up the situation very well. Overall, our experience of support from the Welsh Government has been positive. Minister Hart has been personally involved in our plight. We were successful in having our rates reduced prior to them being devolved. So, it was quite substantial at the time and we were able to negotiate that. I suppose that the biggest issue that we're finding is still energy costs. Again, that is one of the five asks. Again, Wales—Cardiff—and London are helping us. I think we have to realise that not everyone is benefiting from the energy compensation scheme right now because you have to be an energy-intensive industry, which is using 100,000 MW per year.

09:45

[38] It's more applicable to the companies melting steel rather than the re-rollers like us. There are various industries that are involved in downstream operations, or even running steel mills, that were not melting steel and so don't benefit from those energy costs, and that's our biggest problem. We are at least almost double where Germany is and three times some of the Scandinavian countries. So, that's the biggest challenge we find; we are still continuing to lobby London and Cardiff in that area.

[39] **Mick Antoniw:** Just a very specific point. There is a suggestion that there's a lack of urgency, and you've just mentioned being pushed into the long grass. Tim, in your evidence, you suggest that there are lessons to learn here, not about EU state aid and its application, but about a Government's approach and priorities. There seems to be a suggestion that there is still concern about whether the impact of what is happening is properly appreciated or properly being acted upon, I suppose particularly at UK level. Is that a genuine concern that you have—being pushed into the long grass?

[40] **Mr Morris:** If I take that in two parts. We made a specific comment in our evidence about what's called 'state-aid framework', which are rules that are set at a Brussels level to try and maintain, as Chris quite rightly said, a level playing field across Europe and to stop the particular subsidisation of activities by one member state versus another. The broad principle of which, I have to say, we certainly support, as Chris has said, and I would back his point 100 per cent, but what we're after is a fair crack of the whip here. We

want to fight, we want to compete, we want to win, and what we ask for is a level playing field.

[41] The rules set is there. Our experience and our observed experience is that, within that common set of rules, different national Governments behave and practice in a different way. I'm not suggesting that the UK should be Italy, or indeed France, although that would have some advantages, but clearly there are different interpretations of the same set of rules in different countries. In the UK, we have tended to take quite a strict interpretation of the rules where you might say that, in other countries, a more pragmatic approach to the rules, in the context of the larger crisis, is an approach that has been followed.

[42] **Jeff Cuthbert:** If I could, this is the last question from me so as to allow time for others. I take your point on business rates. We will be questioning the Minister this afternoon. No doubt, that matter will come up, but as you say, it has been quite newly devolved and I know that there is work under way to consider what can happen. I wonder if I could ask—. I'm not picking on you, Tim, particularly, but you've been involved, or at least Tata has, in the ministerial taskforce and I'm wondering if you want to comment about the work streams that they have and how beneficial or otherwise you think they are.

[43] And, could I ask all of you about the Welsh Government's role with regard to skills retention? Do you think there should be another ProAct scheme, for example? There is the ReAct scheme that's there, but is there more that can be done in terms of providing training support for those workers who could be affected or would be affected by redundancies?

[44] **Mr Morris:** If I pick up the first point and then quickly hand over to my colleagues, I think the speed at which the taskforce set off has been positive, I think the work it is looking at is in the right areas and we are strong supporters of the work that's ongoing, once again with the caveat that it can do what it can do and the problems that it faces, or is trying to confront, are very significant and beyond the scope of just a single taskforce.

[45] Just to pick up on the ProAct point, in broad conceptual terms, there are three areas where Government can play a legitimate role. No. 1 is immediate competitiveness. We've talked about business rates and energy costs, and that would be one of them, but that would also be anti-dumping because there is a price side—it's not just about cost. The second is about

how you manage through the transition period that we're in—or the real bottom of this cycle that we're in—and this is where ProAct would come in. Our experience of skills retention schemes that the Welsh Government has used before has been positive and we would certainly support that continuing to be looked at as a tool in the box of the Welsh Government. And then the third one is coming alongside industry to invest for longer term environmental but economic sustainability. So, the short answer is 'yes'.

[46] **William Graham:** I'm very conscious of the time. We're having some excellent evidence, but there are a lot of questions to get through. You want to ask a question on dumping, I think, Mick.

[47] **Mick Antoniw:** Yes, a couple of points on dumping. Before I go into the main question, I think it would be helpful to understand, in terms of the export of UK steel, how much of it actually goes into the European Union as opposed to the world market. Do we know?

[48] **Mr Morris:** I would come back to you on the exact figure, but I know for a fact that our exports from the steel we're making in the UK—not just in Wales, but the same would be true of Wales—are by far the largest export market for us outside of the UK.

[49] **Mick Antoniw:** Okay. That's very helpful. Can I ask, then, specifically—. I'll try to focus on some of the anti-dumping issues. Of course, certain tariffs have been set, and they've been set with the UK Government support for the imposition of the lesser duty. This is the one that is basically set against a methodology that assesses injury to industry as a result of imported products, as opposed to an alternative that was actually voted down in Europe, which is the one where you actually set a different methodology, which looks at the profit surplus being the actual profit—loss lead cost for it. What are your views on the lesser duty, on the approach to the way in which tariffs have been developed within the European Union so far?

[50] **Mr King:** From our point of view, we fully want the lesser duty rules scrapped. We see the European Commission as not really having the teeth to actually deal with the flooding of Chinese exports coming into not just the UK but Europe as a whole. As, earlier, I said, I think the UK has a perfect storm, but I think, for the rest of Europe, it's starting to hit them as well. I guess one example you can take is the USA, which yesterday put provisional duties on cold-rolled coil at 266 per cent, whereas in Europe, they put it between 13.8 per cent and 16 per cent. So, just that one figure can show

what having some teeth is. I think, around the lesser duty rule, it basically picks always the lower amount. So, if it works out injury of between, say, 14 per cent and 66 per cent, it will always go for the 14 per cent, which even the business Minister in the UK said in two cases recently, one on re-bar and one on cold-rolled coil, weren't big enough. But the problem is, then, going and trying to change that at an EU Commission level doesn't really happen. It's very hard, when they've made a provisional decision, to actually reverse that decision and put the duties up, whereas, if there was no lesser duty rule, you'll put the higher margin up. Karl Koehler has recently said the EU is basically holding up a sign saying, 'Please dump here; you're welcome.'

[51] **Mick Antoniw:** But the UK Government says—. Stephen Crabb, in the written evidence he's given us, says the UK Government supports the lesser duty position, and obviously that's a position that's been supported in Europe. So, that's a position that you would like to see changed.

[52] **Mr King:** Yes, exactly. It's not in the rest of Europe. The UK is seen as one of the ringleaders in terms of blocking the scrapping of the lesser duty rule. I think if the UK shifted its position, other countries would probably follow on that. For us, it's one of our largest issues in Europe.

[53] **Mick Antoniw:** Is there a—? Sorry—.

[54] **Mr Hagg:** Sorry, I was going to say, in terms of the whole dumping procedure, I think there are a number of issues about it. Obviously, the scale of the outcome, but the speed of the outcome is also something that is of grave concern to us. As somebody who has been intimately involved for the last two years in working on the anti-dumping against China for re-bar, it's been a very frustrating process that we've had to go through in terms of accumulating evidence, enough to persuade the Commission to launch an investigation, and then that investigation takes nine months to reach a provisional measures finding, which came, actually, in January of this year. On re-bar, it came out between 9.2 per cent and 13 per cent, and our concern about that, against those particular producers, is: is that sufficient in order to get them to refrain from those dumping activities, or could they actually continue with that process? And it's going to take another six months, or potentially take another six months, for the final dumping to come about. So, it's the scale and the speed of the dumping procedures that give us cause for concern.

[55] **Rhun ap Iorwerth:** Specifically on market economy status and the

World Trade Organization, assuming that under an accession policy China should receive that status by December this year, how fearful are you of the implications were that to be the case?

[56] **Mr Morris:** I think we're extremely concerned that Europe is effectively sleepwalking into an even greater steel crisis than it currently experiences. I think the industry is so concerned that 7,000 steelworkers, including steelworkers from Wales—from both Tata Steel and Celsa, and including at least one of the representatives around this table from the political side—marched through the streets of Brussels recently to really make the voice of the steel industry heard about our concerns about the China MES issue, in conjunction with some of the other concerns about anti-dumping we've made. I have heard the push back from the UK Government—that this doesn't stop the ability of anti-dumping action being taken against China. But I think what it certainly does is makes such action more difficult to take and almost certainly makes the penalties that can be applied lower. As the experience of this week suggests, when you have America levying 266 per cent tariffs versus 16 per cent tariffs on material that is directly competing with material that's produced here in Wales, for me, that tells its own story.

[57] **Rhun ap Iorwerth:** And also, when you look at countries that do have the status—Russia for example—what do we learn from that experience that really does raise that warning flag when it comes to decisions on China?

[58] **Mr Morris:** I think it's important—. If you took the recent US case as well, you would see that there are significantly lower—still penalties, but significantly lower penalties—for Russia than there were for China. That's because America has the ability to levy penalty levies, as well, if China doesn't co-operate. Now, that ability—. Even if we were to, in principle, want to take that approach in Europe, that approach would go away or certainly be significantly lessened if China was granted the market economy status. So, you'd have just a wholesale reduction in your capacity to address these issues with the market economy status.

[59] **Mr Hagg:** I take a fairly simple-minded approach to this. How do you grant market economy status to a country that clearly does not have a market economy? Sorry, it just seems perverse to me.

[60] **Rhun ap Iorwerth:** Community have said it would be most likely the final nail in the coffin for UK steelmaking—you're nodding. Is that taking it too far or do you fear that—

[61] **Mr King:** I think it is—across the whole of Europe, it is the largest threat coming up. Is it the nail in the coffin? I think probably, you know, it could well be for certain companies around Europe.

[62] **Rhun ap Iorwerth:** Finally from me, a question that's often asked of me—again, you know, in the radio interview this morning—is that there's nothing much we can do in Wales, is there, when it comes to standing up against these global forces. Is there anything that Welsh Government can say, can do, can lobby in the right places, can put the argument forward in the right way that can help take a stand against moves on this front?

[63] **Mr King:** I think it's political pressure, and it's the same with the UK into Brussels. It is one voice, I guess. Wales can influence the UK but can also influence directly the Commission through the MEPs and through the Government. So, I think it is a more tricky one, around the anti-dumping, but I think it is one where there is a large voice in Wales and you want to shout about it, basically.

[64] **Mr Hagg:** I would say, let's broaden the issue. It's not just about China. That is not the only threat that we have. I think that there's plenty that can be done, and I would probably lead us back down the route of procurement policy.

10:00

[65] I think there has been a lot done in terms of guidance, both from the UK Government and, particularly, from Welsh Government on that side, but I think on that score there's even more that can be done to influence the whole of the supply chain and make sure that everybody in that supply chain fully understands about proper responsible sourcing and local procurement, which I think could assist all of the companies sitting here today. If we could get that truly through the whole of the industry, then that's an important thing.

[66] **William Graham:** We're going to come back to that, but Mick, you had a very short question.

[67] **Mick Antoniw:** A very quick point on the market economy status. This is actually vital because if market economy status is granted it could see the end of a whole series of industries, and as you say, be the nail in the coffin.

The key point on it, though, is that in discussions with the UK Government in terms of a position being adopted, is there a unanimity of agreement that China not only doesn't qualify, but shouldn't qualify for market economy status? I understand it could potentially be referred to the World Trade Organization, but has a clear position been adopted by the UK Government on this issue of market economy status?

[68] **Mr King:** I think our understanding is that they are supportive of market economy status for China. You only have to look at, I guess, the Chancellor and his trips over to China to see that. So, we've not heard anything in the sense of them saying, 'We're going to go and think about this'. They're in support of it as far as we're aware.

[69] **Mick Antoniw:** So, it's obviously a concern to you, then.

[70] **Mr King:** Yes, massively.

[71] **William Graham:** Thank you very much. David.

[72] **David Rees:** Thank you, Chair. If I could go back to business rates, which you talked about a bit earlier, clearly there are two aspects of business rates—there is business rate relief, and there's also possibly looking at the plant and machinery aspect of business rates. I'll go to business rate relief first of all, because when I visited the EU about a fortnight ago and talked to officials, some information that I received was actually about the complexity of state-aid rules and the impact they have on business rates, and the need for the member states to have consistency across the UK—the member state, as such. So, are you aware as to—I'll be asking the Minister this afternoon, by the way—whether those type of discussions have taken place, so that business rate relief can be consistent, so that we can get around those state-aid rules?

[73] **Mr Morris:** Yes, they have. I mean, a number of us have been, to use a technical term, banging on about business rates for a while, in the same way that we've been banging on about electricity costs, so I think there's been a lot of detailed work that's been going on in terms of, as you say, a more competitive approach that's consistent with state-aid rules. There are some flexibilities within the current business rates framework that I would say the Welsh Government is actually at the forefront of looking to develop. There is obviously—we are not blind to the affordability concerns of local councils, or indeed the distributional impacts. But it remains the case for us that a large

steelworks in Wales will pay five to eight times the property taxes that it's equivalent—actually, its larger equivalent—in Europe would pay for comparable taxes. So, that is something that needs to get looked at.

[74] **David Rees:** Are we aware as to whether that's because the charges are higher here, or have other countries found more creative ways of going around the state-aid rules at this point in time?

[75] **Mr Morris:** I think what's unusual in our experience of property taxes here in the UK versus elsewhere in Europe is the plant and machinery element of it. Elsewhere in Europe you tend to find that people tax the ground, whereas we tax the ground and what's on it, and that's an important difference. It's not the whole difference, but it's certainly the most important single difference in terms of just straight methodology and how we think about it.

[76] **David Rees:** And is that the same view of everyone?

[77] **Mr Hagg:** Yes, I mean, I think we've tried to come forward with one or two suggestions as to innovative ways it could be approached.

[78] **David Rees:** Innovative suggestions, yes, I did read them in your evidence.

[79] **Mr Hagg:** In certain discussions with Government, they've told us about corporation tax, and how low corporation tax is in the UK in comparison with others, and therefore, on balance, overall, corporation tax plus business rates is not too bad. Of course, we're saying corporation tax is only levied on companies when they make a profit, and if a similar sort of attitude was maybe taken towards business rates, maybe that could help in a cyclical industry such as ours. So, I think that it is a question of trying to look for different ways, innovative ways, of approaching the particular problem.

[80] **David Rees:** Can I just—?

[81] **William Graham:** Last question.

[82] **David Rees:** Well, I'd love to come in elsewhere. On business rates specifically, clearly, we have been aware of the difficulties facing the steel industry for quite some time, and I know there have been calls on business rates for a while. Basically, are the Governments acting—both Governments—

fast enough to address these issues, considering the fact that they've been in the pipeline for a while now? Could we be in a position now where we have a decision on business rates, in other words?

[83] **Mr Morris:** I think the Welsh Government has acted—I was going to say 'quickly', but certainly relatively quickly compared to the UK Government, when it has assumed the devolved powers for business rates, and we would hope to see some action on that relatively quickly. So, I think within that context the Welsh Government is providing its usual creative and supportive approach, which we welcome, to the steel sector. I think the UK Government has said that it is awaiting the outcome of the Chancellor's review of the broader business rates framework, which will be announced at the budget.

[84] **William Graham:** A very short supplementary.

[85] **Rhun ap Iorwerth:** Yes, very short. Is it worth drawing a comparison with what's happened in Scotland, and the steps that Scottish Government has decided to take on business rates and to move rather quickly on that?

[86] **Mr Morris:** I think the—. I mean, obviously, both plants at Tata—in both situations at Tata Steel plants—. I think the Scottish Government have moved in a particular way that has enabled them to move quicker on a smaller base. So, there are some issues about the comparability of the two situations, but I think both devolved administrations have moved relatively quickly on this, given their ability to act.

[87] **William Graham:** Eluned.

[88] **Eluned Parrott:** Thank you. I wanted to ask specifically about business rates on plant and machinery, and I sympathise—I've been banging on about this for more than a year since we had the Chris Sutton review, which looked at business rates. It gave a costing for the removal of plant and machinery from the business rates regime. The cost was not extraordinary, but, not only in terms of the steel industry, but in terms of manufacturing business in Wales broadly, there's potential there. Can I ask—? In terms of the technicalities of making that happen, clearly, there'd be a need for revaluation work and things along those lines. How quickly on the ground, once a decision has been taken, do you think that we could move to a situation where we've removed those business rates from plant and machinery?

[89] **Mr Morris:** I will speak quite generally about this, but, if this is a particular interest of the committee, we can actually get our specialists to provide you a little bit more information on that.

[90] **William Graham:** That would be very helpful.

[91] **Mr Morris:** But, in general, we are heading towards a revaluation. But, coincidentally, we are heading towards a delayed revaluation round. So, there is a window—you would hope there is a window—of opportunity here relatively quickly.

[92] **Mr Hagg:** In terms of the valuations, one of the working groups that was launched by the UK Government did actually ask industry to look at the different categories, and so there is quite a lot of preparatory work that has already been done for the various categories of plant and machinery. So, I think we're reasonably ready to go.

[93] **Eluned Parrott:** That would be fantastic to hear, but clearly we've had a long period of time since the devolution of powers over this, and we've been preparing it for a period of time as well. What do you think have been the sticking points to making this happen? It seems like a relatively straightforward decision to take on the face of it. What have been the sticking points? Have you been discussing this with Welsh Government?

[94] **Mr Morris:** I think there are some important questions to answer about affordability and distributional impact. There's probably a whole raft of technical issues as well, and, as David has pointed out, you know, there are some state-aid complexities. The steel industry in general is extraordinarily tightly constrained by state-aid rules, more so than possibly any other industry apart from fishing, due to past abuses. So, there are some complexities around that, but the ones of substance, I imagine, are that there are some considerations about affordability and distributional impact.

[95] **Eluned Parrott:** One of the reasons suggested for not moving forward with any significant reforms to the business rate regime here in Wales that's been given by the Minister previously is that we have this porous border with England, and that the modelling and the understanding of how businesses might move is not understood. Can you foresee any potential negative impacts of this change?

[96] **Mr Morris:** I think it's unlikely that we would move a large steelworks

one way over the border either way. I don't mean to be flippant, but—. I think that may well be a consideration, but that's not one for us.

[97] **Eluned Parrott:** Thank you very much.

[98] **William Graham:** Joyce, please.

[99] **Joyce Watson:** You've touched on procurement, and, as chair and founder member of the all-party group on construction, there was a procurement policy agreed by industry and the Minister last year. So, I'm interested, particularly, in your views where you said about earlier opportunities in the partnership between Government and procuring services, and if you would like to add anything further. Because that was part of that agreement, where the Institution of Civil Engineers and builders were engaged. So, what exactly do you think that Government could do that it's not doing now, whether that's the UK level or whether that's at the Welsh Government level?

[100] **Mr King:** Coming from a UK point of view, obviously they've put in place guidance before Christmas on contracts worth £10 million and more, which is positive. I think it's then making sure that that actually happens, which is a very different thing. When it's guidance it can just be read and put in the bin, and, especially with civil service churn at the moment, you can maybe have one civil servant on side, who goes, 'Yes, we really believe in this. We'll be pushing this forward' in, say, the Department for Transport, but they'll move on in a year, three years, five years maximum, and therefore you've almost got to keep doing it. So, what we want in place is sort of an automatic and robust system, partly to make sure that it is going to—. Or, you know, that UK steel producers are having the best opportunity possible to bid for the work, and their local, social value around that is being taken into account. I think, at the same time, you do need some sort of monitoring, not just in the UK but also in Wales, in making sure that it actually happens. It's all good and well saying, 'Yes, we're doing this, because we've done this guidance'; it's a very different thing actually enacting it.

[101] **Mr Hagg:** I think it's very good and useful to have sight of what's happening in the supply chain and what are the new projects coming on so we can gear ourselves up for some major projects because, sometimes, there's a lot of steel that's required in a fairly short space of time. So, it's good to see what is in the supply chain. I think the work that's been done on procurement guidance has been exceptionally helpful to the industry. What

we do need now, though, is this control and monitoring of the process to make sure that the wishes of Government are then passed, cascaded, right the way through the supply chain. Because what we see sometimes is that those wishes can get lost—either diluted or completely lost. I think, from our point of view, what we've been saying to Government is that we need the tier 1 contractors to have the responsibility of making sure that the full supply chain understands what those wishes of Government are, and that they are properly implemented. Therefore, it's the control monitoring side now, I think, which we could do with a bit more beefing up.

[102] **William Graham:** It worked well with Crossrail, though.

[103] **Mr Hagg:** Yes, with Crossrail, it's worked extremely well, but there's always concern that there are other projects where, maybe, it can get diluted.

[104] **Joyce Watson:** Can I ask also—still under procurement—whether you'd like to discuss the requirements on quality and environmental standards and how they might be used to advantage British Steel rather than the dumping of other imports?

[105] **Mr Morris:** I think what the UK steel sector would like is the conditions that prompt or produce a sort of joint win, in that what you have is that you have a steel sector here in the UK that operates under particularly high standards of environmental regulation. It is, on average, one of the most efficient producers—European steel is certainly one of the most efficient producers around the world. What, hopefully, you'd like to see is that recognised in procurement. So, what you're producing is a win both for economic but also environmental sustainability, so you're having the highest quality steel, in terms of the environmental and broader concerns that come with it, going into the major projects—helping with carbon dioxide and helping British jobs as well.

10:15

[106] **Joyce Watson:** Can I then ask, obviously, how the Welsh Government's procurement policy so far meets the requirement set out in the charter for sustainable British steel that will particularly support domestic producers of re-bar?

[107] **Mr Hagg:** Absolutely. That's true.

[108] **Joyce Watson:** It's good. Just finally—because I'm quite keen to do this—I'd ask if, in your opinion, it would be useful and advantageous to your industry that, when the UK Government is setting, which they're about to, the next budget—and they're already talking about austerity—it might be useful if they actually thought instead of bringing forward, as the previous Labour Government did, some of the major projects to the table that then would help your industry to immediately lift this economy and prospects for all your jobs and everybody else.

[109] **Mr Hagg:** I think, inevitably, we would say that the more consumption of steel we can have in this country the better from our individual company's point of view, but I do fundamentally agree: responsible sourcing of local materials is really what we should all be promoting. And, as a result of that, we keep the jobs in this country and we don't import the carbon dioxide from elsewhere.

[110] **William Graham:** Quite so. David has a short question on this one.

[111] **David Rees:** A short question on procurement. You've highlighted the issues about policy. Policy is what it says; policy's not implementation. What confidence do you have that the delivery of those policies will actually ensure that British steel is actually being increasingly used within public projects?

[112] **Mr Hagg:** Well, I think we are starting to see a bit of a change. We are seeing that more contractors through the supply chain are actually asking the question. We're told anecdotally as well that, as a result of the procurement policy, there are more questions being asked of the Crown Commercial Service, which has written the Government guidance—more questions being asked of them as to what the real policy is and how they need to implement this from their own departments. So, I think it does seem as if there is something happening out there that is working in the way that we would wish it to, but I insist again: I still think there needs to be more done on the control and monitoring to make sure that the wishes are really applied.

[113] **William Graham:** Mick, you have a short question—and I mean a short question, please.

[114] **Mick Antoniw:** Are you getting the same response from, for example, the Ministry of Defence in procurement, because they are procuring billions of pounds-worth of work with mainly imported steel?

[115] **Mr Hagg:** I think, possibly, Tim, that's more for you because we don't do anything really with the Ministry of Defence.

[116] **Mick Antoniw:** No, no, of course.

[117] **Mr Morris:** Yes, I think we would like to see the Ministry of Defence come to the table a little bit more. We are suppliers or have been suppliers to major defence projects. So, the new aircraft carriers are 97 per cent built with our steel. That hasn't been the case in all of the defence projects, and we'd like to see the MOD come to the table a little bit more. We are not—and I think I speak for all of us here—asking for people to make economically irrational decisions. What we're asking for is that value in its broader sense is recognised in these contracts and considerations. Again, it comes back to what Chris just said, which, again, I'm going to say because I fully agree with it: we're after a fair crack of the whip, a level playing field to compete on. This is not, 'Buy UK, build walls, stop other steel coming in'; this is about a fair crack of the whip and letting the British industry succeed on its own merits.

[118] **William Graham:** Eluned, do you have a quick question?

[119] **Eluned Parrott:** Yes, just very, very briefly, one of the things I've asked the Welsh Government to do is an audit of the contracts that are available on the Sell2Wales website and other places to ensure that, when we are designing those contracts, we are writing right through them the kind of things that British steel would be able to offer that perhaps cheaper imports couldn't. Has the industry done any of that work to assess to what extent that is the case?

[120] **Mr King:** We're working with, in terms of UK, Crown Commercial Service at the moment to try and set up some tracking, and pushing that in. I think it's a job in hand. I don't think it's happened before in terms of monitoring amounts of steel needed at that early stage. It normally goes to a tier 1 contractor, and then it's up to them, in essence, what happens there. I think it's work in progress.

[121] **Eluned Parrott:** That's great, thank you.

[122] **William Graham:** Oscar—energy.

[123] **Mohammad Asghar:** Thank you very much, Chair. I think you've given very interesting initial notes regarding the perfect storm and also the walking in the sleep and all the rest of it, but when there's a perfect storm, you always protect your assets and your livelihood. That's the first principle of any storm. So, basically, my question is towards energy prices in your industry. How could the Welsh Government further assist the steel industry in obtaining a level playing field with European Union competitors on energy prices? That's one. And what compensation package for the time delayed by the British Government in your industry have had an impact on you?

[124] **Mr Morris:** What we've seen is that the UK Government has, again, somewhat belatedly, acted in terms of creating a more level situation on energy prices, and electricity prices in particular in terms of the—for want of a better word—green taxes that come with it and which are significantly lower for competitor steel makers in Germany and France than they are for us. And they have now acted, and we are starting to see the benefit of that. To address your second question within the context of the first, those taxes have actually increased to the extent, over the period between this policy initiative being announced and it actually being enacted, that the aggregate amount that we pay is actually the same. So, in terms of tens of millions of pounds, that number is now the same as it was 2.5 years ago, because there's been an increase that we are now getting compensated for. So, you know, that is a source of some concern to us.

[125] The search now has to move on to how we further level the playing field, because—I'm sure Chris could confirm to you, because Celsa has operations across Europe—there are still some very glaring errors. So, the work has to continue on that, and then, I think the Welsh Government has an important role to play in terms of the political pressure it could put on the UK Government, but also looking at innovative ways that the energy infrastructure in Wales, both generation and distribution, can work, perhaps on a more local basis, to support industry.

[126] **Mohammad Asghar:** Sanjay, you mentioned earlier that, in the first two years, you were a little bit—you couldn't do it, much further stand still, because of some energy problems and the price of energy.

[127] **Mr Toharni:** Yes, I think a lot of good work has been done with this energy compensation work, but not enough has been done against the energy companies, and I think that if you're one of the high users, you can negotiate those rates, but, certainly, we weren't able to, and if you look at UK

electricity prices right now, one of the larger users will pay between 8p and 9p per KWh as opposed to 4p in Germany. We've been hit with charges going back as high as 20p per KWh and have tried to take action against the energy companies, and I think there's work to be done on that side.

[128] We've had to circumvent this whole system by setting up our own utility company and supplying ourselves, because we understand how trading works, and we've got our cost down to under 6p. So, it's just showing the margins that are still being earned out there for the smaller people involved in the steel industry and downstream operations. So, I think there could be some more work done with the energy companies themselves—utility companies.

[129] **William Graham:** That brings us to emissions trading, Jeff.

[130] **Jeff Cuthbert:** Thank you very much—yes, it does. Can you talk a little bit more about your concerns around the impact of the EU emissions trading proposals for post 2020?

[131] **Mr Morris:** Europe is at the forefront of the establishment and operation of carbon pricing. This, I'm sure, in many respects, is a good thing. However, it is a particular problem for carbon-intensive industries that are also globally competitive or face global competition, like steel. We currently have the situation where we are provided with a certain free allocation of carbon allowances, but are short of what we would need at a reasonable level of production. Our concern, post-2020, is that the reform proposal on the trading scheme that has been put forward by the European Commission makes this competitive disadvantage even worse. The benchmarks that it uses to set the level of free allocation are simply, technically, unachievable now, let alone with the degradation that they're due to suffer from over that period. The imposition of top-down cuts through something called the cross-sector correction factor means that the European sector as a whole will face a cost penalty of about €32 billion in the period 2020-30.

[132] Now, it may seem remarkable and almost beside the point to be talking about what might happen in 2020-30 when, as I think we've all agreed on this side of the table, there is an urgent and pressing crisis at our door right now. However, we need to keep an eye on these longer term developments, because if and when we get through the current crisis period only to get hammered by the next crisis coming down the line, it would not be an attractive position for those who are looking to invest in the steel

industry, which, inevitably, has a long-term investment horizon.

[133] **William Graham:** I'm going to extend our session a little bit, but, Rhun, a quick question.

[134] **Rhun ap Iorwerth:** On the need to be innovative, like your idea of setting up a utility company, and I'd like to see the whole of Wales coming into, perhaps, a new utility company that could have business across the board, coming back to something you said earlier about three steps, one on the immediate competitive steps that need to be taken, and the second on things like workforce retention in order to get us through particular barriers now. The third you mentioned was the need for Governments at all levels to work alongside business and invest in innovation. Is there merit—

[135] **William Graham:** This is a long question from you, though; let us just get some answers.

[136] **Rhun ap Iorwerth:** Is there merit, then, in looking at joint investments, joint ventures, for example in energy generation, as a way of actually putting money in alongside business to move forward?

[137] **Mr Morris:** Yes, and I think our experience is that the Welsh Government is increasingly receptive to that kind of joint dialogue. It's one we'd like to get into more with Governments, both at Cardiff and Westminster levels. I think there are some particular circumstances where particular projects may be particularly innovative or maybe at a particularly early stage of their maturity where, you know, the actual stand-alone private sector business case is more difficult to make, but the longer term benefits in terms of product innovation and skills, but also the environmental benefit, would be there as well. Those, hopefully, will be fertile areas to explore.

[138] **William Graham:** Thank you very much. As we have the local Member with us today, I have to give David the chance just to ask a question.

[139] **David Rees:** Thank you, Chair. Just a couple of quick questions, to you all. The EU state-aid rules clearly are major issues, and they've been there for quite a while now and, when I met with them, they actually indicated that the Commission can change those state-aid rules. Have you made representations to the Commission about looking at the state-aid rules for steel and have you talked to the UK Government about making representations as a member state about changing the state-aid rules for

steel?

[140] **Mr Morris:** Yes.

[141] **David Rees:** To both?

[142] **Mr Morris:** Yes, to both.

[143] **William Graham:** That's a good answer. Next question.

[144] **David Rees:** In that case, more specific to Port Talbot and the works at Port Talbot and its future viability, I believe there is a future for the works. The taskforce in relation to the responses and as per the announcement on 18 January—. We understand the work streams are looking very much and carefully at the support we can offer those employees who will be receiving letters sometime next week, I believe, in relation to their future positions, but are we doing enough on looking at future investment and future encouragement of businesses to come in and the enterprise zone aspects?

10:30

[145] Has that all been sufficiently addressed by the taskforce in your opinion because, clearly, that is going to be important to ensure opportunities for those who are retrained? I will follow on from Rhun's question on the joint ventures, because clearly the power plant in Port Talbot is one of those that is very much environmentally targeted, using waste gas. Are you in discussion with the Welsh Government on relationships like that particular project?

[146] **Mr Morris:** I think that there were three there, so let me see if I can do them fairly quickly and in order. In terms of the taskforce and mitigating the impact of what we'd be compelled to do and whether we feel that it's doing enough—we feel that it's doing a lot. Is it enough? That's difficult to say. There are some people for whom the current developments will be very difficult and I wouldn't want to give any glib answers about whether that is enough. I think it's beholden on us all, and it's certainly a responsibility if we as a company feel so, to do our utmost to support that kind of work.

[147] I think, in terms of regeneration, I guess, which is the essence of what you're doing, we've been strong supporters of the enterprise zone concept. Indeed, I've been in meetings where we have made representations about the

enterprise zone directly to very senior members of the Westminster Government. So, again, let's look for enterprise zones and for other ways in which we can push forward the regeneration prospects. We stand ready as a company to do what we can to help that, as we've done in other taskforce areas, like south Yorkshire and the north-east.

[148] Thirdly, on the joint ventures, yes, we're in an active dialogue with both the Welsh and the UK Governments about what are the right ways of coming alongside Government and industry, working together in a sensible and state-aid compliant way—I'm now becoming something of a bore on the subject—in terms of looking at what the opportunities are for the longer term sustainability of the plant, recognising, of course, the immediate and very significant challenges that the operating and business environment places on the business, which can't be, unfortunately, understated.

[149] **William Graham:** Thank you very much for your evidence today. We are most grateful for your attendance. The committee will recess until 10.45 a.m.

[150] **Mr Morris:** Chairman, I do a number of these types of committee, so I'd like to thank the committee for their interest, but also thank the clerking of the committee, which has been very efficiently done. It was very helpful to the members of the panel.

[151] **William Graham:** That's very kind. Thank you, Mr Morris; we are much obliged to you.

*Gohiriwyd y cyfarfod rhwng 10:33 a 10:44.
The meeting adjourned between 10:33 and 10:44.*

**Cynrychiolwyr Undebau—Pwysau sy'n Wynebu'r Diwydiant Dur yng
Nghymru
Union Representatives—Pressures Facing the Steel Industry in Wales**

[152] **William Graham:** May I welcome our witnesses? Could I ask you to give your names and titles for the record, please, starting with Mr Beck?

[153] **Mr Beck:** Jeff Beck, regional organiser, GMB union.

[154] **Mr McCool:** Steve McCool, national official for Community union.

[155] **Mr Brady:** Tony Brady, regional officer for Unite and lead officer for steel in Wales.

[156] **Mr Lucas:** Carl Lucas, regional officer for Unite.

[157] **William Graham:** Thank you very much. I'm going to start with a question, today. We're trying to obtain a brief summary of the current state of the Welsh and UK steel industries and particularly ask you in terms of the morale of your members.

[158] **Mr Brady:** I think morale, understandably, is very, very low. It's not just the situation we're in, it's the situation that will remain if the steel industry is saved. Destiny is not in our own members' hands. There is something there for the UK Government to do something to make a sustainable future for the people left after the redundancies. So, the morale is very, very low.

[159] **William Graham:** Thank you. Mr McCool, your union is said to be challenging the Tata Steel plan for restructuring and redundancy. Would you like to give us an outline of that?

[160] **Mr McCool:** Well, there have been 6,000 jobs lost since about October time in the UK, across the whole sector and it started off with SSI and the implications it had for the north-east of the country. But since then there have been announcements right through the Tata group, starting with some 120 in the Sheffield area. That was followed by 1,200 across long products businesses in the Scunthorpe area and the north-east. Then we got the 1,050 jobs announced in south Wales in downstream industries.

[161] We are, obviously, in the process of dealing with that through the normal negotiating machinery to try and prevent hard redundancies and so on. In the main, that seems to be going quite well in trying to manage the whole process. But it is tough—there's no doubt about that—and we're far from out of this predicament, currently. The steel industry is still under a lot of pressure.

[162] **William Graham:** Thank you. That brings us to Jeff's questions on workforce support.

[163] **Jeff Cuthbert:** Good morning. Following on from that question and your responses, just to understand a little bit more about the impact of these pressures on the steel industry and the impact on the workforce, and,

indeed, the supply chain, as well as the direct workforce, as you know, we have the ReAct scheme in terms of Welsh Government support. We did have ProAct, which provides investment to help retention and reskilling. Do you think there's a case for another ProAct, or something similar, to be implemented?

[164] **Mr Lucas:** Certainly, with ProAct, I think ProAct is a useful tool that could be used. When ProAct came out first of all, it was when we had the recession and it was used to keep skills in core businesses for when the recession ended, so that business was well placed to be able to restart itself. I think, with the case of Tata, that could well be the case as well. If you're having job losses, you need to retain skills. The best solution for us, for anybody who is going to lose their job, is that people who want to go are allowed to go. One barrier to that may be that the skills that the company require to go forward are needed. So, a scheme like ProAct that could assist the company to upskill those people who are to remain could well ease the situation if the survival plan is what it is.

[165] The impact on the supply chain and the workforces surrounding that is already evident. Just on the announcement that Tata made for the redundancies in Port Talbot, Llanwern et cetera, the supply chain is already making provision to lose some of its workforces, because of their fears of what they're going to lose coming out of the end of the review. So, they're jumping already into making those decisions. So, the decision that was taken by Tata to make the redundancies is already having a dramatic effect on the business supply chain.

[166] **William Graham:** The microphone should come on automatically.

[167] **Mr McCool:** I think there are a couple of areas that we need to look at here, because there are a lot of employees who have very few transferrable skills. So, any type of training has to be bespoke in terms of the needs and a proper training needs analysis done of what is necessary. That's to deal with the initial impact of the job reductions, but, given that there's a hidden number in this—because for every one employee, it actually supports 1.2, in the figures that we've been looking at out there in the wider community—how do you address the impact of that? That's difficult to analyse in terms of what you need to do there, whether that's in the supply chain or even the shops and town centres around about the communities where the industry is.

[168] Further to that as well is that there has to be something in terms of

upskilling that can still lend quality to what could happen in the future, because the steel industry, albeit that it's at a low ebb at the moment, should and could return at some point. When you're looking at the plans that Tata have got in place, the drop in the liquid steel production, if the marketplace does turn around—and that is obviously everybody's hope and intention—we would need, then, a workforce able to go into the workplace again to take up the opportunities that the industry may be presented with, then.

[169] **Jeff Cuthbert:** Okay. It stands to reason that we all want the industry to recover, so we don't want those skills lost to the industry. So, I can see the value in ProAct, or a similar scheme, to assist with that. Can I ask you all about the UK Government, and whether or not they should apply to the European globalisation adjustment fund for further assistance?

[170] **Mr Brady:** Obviously, we want the UK Government to apply to every fund that's available to help with the situation. It's our understanding at this moment in time they haven't applied for the globalisation fund. So, yes, we would be encouraging the UK Government to do everything—everything—possible that will help the situation.

[171] **Jeff Cuthbert:** May I ask if the unions are lobbying for that to happen and pressing the UK Government for that to happen?

[172] **Mr Brady:** Yes, we're doing what we can with the different taskforces of the Welsh Government. We try to do it in partnership with the Welsh Government, but we are doing it any chance we get.

[173] **Mr McCool:** Lobbying is continuing all the time on this, in every aspect of what we need to do to help the industry. The likes of the global fund you talked about, and other issues like business rates and energy prices, and that, all help, but in actual fact the big issue is about dumping, currently, in the European Union. We've got a double whammy in that sense, because of the foreign exchange, albeit that it's changed slightly in the last couple of weeks. That is why we're getting and seeing so much dumping in the UK. So, it's a package of measures. The fund that you're talking about, yes, we should be pressing—and we are pressing—and lobbying Government on that.

[174] **William Graham:** Thank you. David.

[175] **David Rees:** Thank you, Chair. You mentioned the taskforce being set up by the Welsh Government, and it's obviously reacted very quickly,

following the announcement on 18 January. Two questions: are the work streams progressing sufficiently at the pace at which we need them to progress? Second question: because we were aware of the concerns in the industry, clearly highlighted by Redcar and Scunthorpe in the early autumn, had we been doing enough within Welsh Government to actually prepare and support the industry prior to those announcements?

[176] **Mr Brady:** I would say that the Welsh Government has reacted very quickly; I totally agree with you there. The taskforce was very helpful, and there were a lot of good people sitting around a table trying to work together to improve the situation. The sub-groups that we're looking at are very important, things like skills retention and the enterprise zone et cetera, but, really, they're looking at the situation once redundancies are made. Now, I agree it's work that should be done and we should be ready to react to that, but at this moment in time, we're looking to try and save jobs and try and save the industry. So, whilst we're happy to take part in these talks, and they are important, we feel that hands are tied, really, until announcements are made by the company. We are still opposed to compulsory redundancies. So, until we have the actual figures and people who have been identified as being made redundant, for these streams, I don't know what they can do at this moment in time, but they're very, very welcome.

[177] **David Rees:** Are they going to be in a position—because I understand the letters will be issued to staff next week—?

[178] **Mr Brady:** On 9 March, apparently, the letters will go out.

[179] **David Rees:** Is the taskforce in a position now to react instantly once those people get that notification, because we don't want this to be hanging around, in one sense?

[180] **Mr Lucas:** Yes, I think the taskforces have all moved at a rapid pace to get into place everything that's needed to deal with those who are going to be affected from Tata. Certainly, there's a key role that one of them has been playing, on the supply chain, on dealing with how the supply chain is reacting to the losses as well. So, those streams are well in place to deal with what is coming. One of the important taskforce meetings that we are involved with, though, is the procurement one. The procurement one, which some questions, I'm sure, will be on later, is key to making the survival of UK steel, not just Tata, but UK steel, and how Governments react to procurement, I think, is an important one that needs to be developed

through that stream.

[181] **David Rees:** I'll leave the procurement questions to someone else. Finally, on this point, you indicated that we are responding. Is the taskforce looking at the future sustainability as well as responding to the job losses? And if it's not, are you in discussions with the Welsh Government, or lobbying the Welsh Government, about the future sustainability and the actions it can take here in Wales?

[182] **Mr Brady:** I think they are looking at the sustainability et cetera, but I think we still need the commitment from the UK Government. The work that's been done by Welsh Government's fantastic, but we still need the commitment and the support from UK Government and we're not seeing that. We talk about it a lot at the sub-groups and the taskforces, but our hands are tied at the moment. We're looking at people—Lord Bourne's on the taskforce, but Lord Bourne's just giving us kind words at this moment in time, and without being disrespectful, we need action, not words.

[183] **Mr McCool:** There are a number of taskforces up and down the country currently, as we speak. There's one in Scotland, there's one obviously dealing with the Redcar situation, Scunthorpe, Yorkshire and obviously down here in south Wales. In reality, it's all reactionary. We understand that that's the name of the game when these big announcements take place, but what we've been trying to do is to encourage a discussion around a manufacturing strategy, a manufacturing action plan, to actually get on the front foot rather than on the rear foot all the time on this. It's crucial that we develop the discussion around that and how we actually add value for the work of the taskforce. What I've been saying in various other forums is: clearly, this is step 1, what is step 2? We can't all pat ourselves on the back after the work's been done to help the process of retraining and whatever else. It's the steel industry, and we need to protect it, but how do we protect it? And that will lead on to some of the questions on procurement and whatever else.

[184] **David Rees:** Can I ask one final question on this point? I've heard and read some of the comments from the Secretary of State for Business, Innovation and Skills in the UK Government, and it worries me that he seems to not have a consideration of industrial strategy, effectively, or even an understanding of an industrial strategy. Are the taskforces across the UK, which obviously you might be involved in, pushing for a greater understanding in the UK Government of putting that strategy in place so we can see a future for the steel industry at a UK level?

[185] **Mr McCool:** We need to join this up, and I think the Welsh Assembly and Scottish Government can actually try and lead the way on this. Because when I was given a list of all the procurement projects up in Scotland and asked about how much steel material would come out of the Scottish mills for those projects, it was very little. I explained to them that it would actually be coming from Celsa, from Port Talbot through the downstream chains of Corby and Hartlepool and all the rest of it, so in matching it up, starting the dialogue between the taskforce, they see what the future projects hold and the opportunities that could present to the steel industry in Britain.

[186] **William Graham:** Thank you very much. Rhun.

[187] **Rhun ap Iorwerth:** I have some questions on procurement, actually. I'll come straight to you. Would you like to expand on what you are going to be saying on the need to improve the situation regarding procurement?

[188] **Mr Lucas:** On procurement, we need, I suppose to put it bluntly, actions not words. You know, it's no good having a woolly understanding that you would like people to consider using UK steel. We want direction from Governments, both Welsh and UK, that you will be using UK steel. And that's not just to Tata; that's UK steel, so we're not just singling one industry out. But if UK steel is going to be protected, then we need to be using it. I suppose, ideally, I'd like to see in any Government project that it is UK steel that's being used, and in any private venture, that maybe assistance is given from Governments to those companies—or incentives are given to them—to make sure that they do use UK steel. Because it's no good having an industry that is on its knees now and then having major projects using Chinese, Russian steel, and then putting the business out and the end result is nothing in UK forever and a day.

[189] **Rhun ap Iorwerth:** What about the mechanisms that are currently in place to monitor the use of UK steel? I'm interested in what Community said in your evidence to us that the Welsh Government has a better record of using procurement to support industry and communities than at a UK level. I recently asked in a role of mine outside of this committee what procurement levels there had been over the past five years and the Government in Wales didn't have those records. In that context, what do you mean by saying that your experience is of a Welsh Government that is performing better?

[190] **Mr McCool:** I think that's just actually down to what we're picking up

from the work that's carried out in Wales. I've seen it when I was working here many years ago, there was a better link to an understanding of procurement and indeed what it does for the industries that we hold dear. It was just suggested that the British Government don't get this. They don't see the value in it. It's the 'key market' all the time. What we've obviously seen in some aspects of how procurement works is, when it goes out into stockholders and that, the traceability of where it originated from can get lost. So you've got a lot of outlets out there that might not actually be—the stocks that they're holding are coming from non-UK steel mills. That's how the traceability of it is difficult to measure.

11:00

[191] **Rhun ap Iorwerth:** So, perhaps in terms of words, Welsh Government is better in terms of what it would like to do, but in terms of action, there's perhaps little that can be seen as evidence of better procurement practice. Would that be fair?

[192] **Mr McCool:** Again, it's about a joined-up strategy for the UK. Because I had a phone call recently, very recently, that there was a rumour going that a couple of motorway extensions in Scotland were being provided with steel from outside the UK. I immediately got on to the Scottish Government on this, and that wasn't the case. But quite quickly it was established that we need to get the tender process correct, so, making sure that they link it, because these products would mainly come from Celsa. It's re-bar, wire rod and things like that, so obviously Cardiff would benefit from that, if there were supply chains going into these projects in Scotland.

[193] **Rhun ap Iorwerth:** And presumably you would be in favour of using issues such as standard of product and environmental aspects, perhaps, as a good argument for stating clearly—and getting around state-aid rules—that UK steel should be used.

[194] **Mr McCool:** That's correct. All the evidence we've seen about the quality from other parts of the world is that it is certainly not to the high standards that we have in the UK. Again, talking about re-bar, we've seen examples of the poor quality. You can break these things over a wall, in fact, and this material could be going into power stations—nuclear power stations. You've got to then question the safety of using material like that. The standards in the UK are well established. I know that there are discussions ongoing about how they can brand it as 'Made in Europe', or

whatever else, so that we actually make sure that procurement, again, is right in terms of supply from not only the UK, but Europe.

[195] **Rhun ap Iorwerth:** And from the GMB's point of view, I don't know if you want to come in at that point.

[196] **Mr Beck:** Yes, there are a number of waste-to-energy projects sprouting up like daffodils around not just Wales, but all of the UK. The Member for Aberavon would probably support me on this, as we are probably still drying out, the pair of us, from the demonstration on Tuesday of this week, when we watched the Polish lorries bringing in fabrication from Poland, driving past unemployed Welsh workers, and it didn't go down very well with those lads. A lot of these local authorities can now grant planning permission to build these waste-to-energy projects, and we'd like to see some procurement rules built in from the Welsh Assembly that the product that's used is British steel, not foreign steel.

[197] **Rhun ap Iorwerth:** How would those procurement rules look? There are issues, when you try to introduce that change—some of the changes that, I guess, all of us on this committee would agree with you would be desirable. But what kind of procurement policy rule changes would you build in?

[198] **Mr Beck:** Well, obviously, to support the British steel industry we'd like it to be built into the planning consents, when they give them, that it has to be built with British steel, to protect our own jobs and our own industry. At the moment—we saw it in Margam—there are a lot of unemployed local lads there who've gone on the site to ask for work, and they've been turned away. There are Portuguese on there, there are Polish workers on there, there are Croatian workers on there, being paid less than the living wage and undercutting the national agreements in the UK. This social dumping has got to stop. It needs to be built in. We need to protect local jobs. I've got nothing against migrant workers coming here, but let's pay them the rate for the UK and stop undercutting and social dumping on this country.

[199] **Mr Brady:** Can I just add to that? How would it look? We only have to look at Germany and France and Italy. There are systems in place for procurement within their own countries. We'd just have to copy our own version of what they're doing. It's actually happening in Germany and places like that. So, it's not something new that we would have to introduce. Let's go along with our European cousins and do the same thing they're doing.

[200] **William Graham:** I have a couple of supplementaries on this, and I'm conscious of time, so a quick supplementary from each of you, but if it's long, I'll stop you. So, Joyce.

[201] **Joyce Watson:** I've worked with the construction industries for some years now and produced an industry-led procurement policy in agreement with the Welsh Government. I'm very keen, obviously, to work with you and have you around the table. The Institution of Civil Engineers are around the table and have signed up to it. We heard evidence this morning about the tier 1 contracts, and it's much the same as the evidence I gathered then. So, in terms of levels of understanding and where the contracts lie, what observations would you like to make here, now, that you might not have already made in terms of that feeding down the chain of procurement? Because there is practice in place—

[202] **William Graham:** Okay, let's have some answers.

[203] **Joyce Watson:**—how do we deliver it?

[204] **Mr Lucas:** I think one of the things that we put forward in the procurement task group was that Government needs to be talking to the steel manufacturers on what procurement projects are within your train of thought going forward. The steel manufacturers need to be telling you what their capabilities are, and what their understanding is of what they can and cannot do, because there will be some things that they may say that they can't do, and then the joined-up thinking that was referred to by Steve a bit earlier needs to take place. And then—it comes back to Rhun's question, really—we need direction rather than encouragement; it needs to be direction that UK Steel will be able to use, rather than encouragement.

[205] **William Graham:** Okay. Mick.

[206] **Mick Antoniw:** On this point, Jeff, you raised the issue of the agency workers directive, which is a key issue that the UK Government's been opposing reform of, but that's a slightly separate issue. In terms of procurement, surely the key issue is this: there are two criteria that can actually be built into the process, and I wonder if this is something you raised with regard to, firstly, the actual standards and quality side, but also the social dimensions in terms of the production and the social impact. So, in terms of whether it's areas of unemployment, but also the actual social standards by which it is actually produced at.

[207] **William Graham:** Fine, thank you. Let's have some answers.

[208] **Mr McCool:** The way that we would see it in terms of the procurement—Tony touched on it a bit earlier—is that some of these countries actually set percentage figures for how much steel must go into these infrastructure projects. Taking a lesson from that would be of a great help, because when you look at the market share within the UK currently, it's very low. We don't need 100 per cent market share for our steel companies in the UK; we just need it up to over 50 per cent, pushing towards 60 per cent, and we would have a thriving business. So, if any clauses in procurement policies could actually say that it uses 60 per cent, 65 per cent, or whatever other figure would be agreeable, it would actually assist the industry a great deal. It's all about, as you rightly say, community benefit and community clauses. It's the value that that then puts into the local economy. The spending power within these steel communities is vast because of these employers. So, it is a community benefit, and making sure that these types of words are used more often when the tendering processes go out, but then you need some checks and balances to make sure that we're getting a fair playing field—a fair crack of the whip here in this. We don't need 100 per cent; we just need to drive the usage up to about 50 to 60 per cent, and we'd have a thriving UK business.

[209] **William Graham:** Eluned.

[210] **Eluned Parrott:** In terms of the categories or the criteria we could set to prefer British steel over foreign imports, for example, one ground might be the environmental impact and another ground, obviously, is the quality now. There is a gulf in quality between what British steel can produce and some of these Chinese imports, and I wouldn't want to be in a garden shed that had been put up with some of the imported re-bar that I've seen. That's true in terms of Britain versus China, but how do we compare in terms of quality, environmental standards and also working conditions with European competitors?

[211] **Mr McCool:** The standard within Europe as a whole is very good, because it's an advanced, mature industry in these countries. Obviously, it's the reverse of that argument in terms of China and India and wherever else, and that's where you've got the rush to mass produce things of lesser quality. On the continent, it'd be fair to say, particularly in Germany, that there are higher paid salaries in these countries. Yes, there may be more

efficiencies, but make no bones about it that, in the past, there has been state aid in some of these countries to actually meet the environmental challenges that we face. So, the investments went in. The problem is that the British steel industry has been underinvested in for a long, long time, and we're playing catch-up then. When you're trying to play catch-up in a recession, then you've got your two hands tied behind your back.

[212] So, anything that could be done in assisting the UK steel industry with trying to underwrite things. Because what happened with SSI was that they had a number of projects into the green bank for funding, but because of the vulnerability of that business, they couldn't get the money freed. So, we need a mechanism to underwrite certain risks for some in our industry. Tata and Celsa are not high-risk companies, but they struggle at times to get environmental projects, which often give a quick payback time of a year or two years in terms of investment. We need to be much more proactive in trying to assist these companies with these types of projects. Then, that brings us to a level playing field with our European counterparts.

[213] **Eluned Parrott:** Thank you.

[214] **William Graham:** Most helpful. Energy, Oscar.

[215] **Mohammad Asghar:** Thank you very much, Chair. My question to the witnesses is regarding the energy prices in your industry. How do you consider that the UK Government could further assist the steel industry in obtaining a level playing field with EU competitors on energy prices? What impact has the time taken to fully implement the compensation package for energy intensive industries had on the Welsh and UK steel industry?

[216] **Mr Brady:** I think, in terms of energy prices, it's a well-known fact now that UK steel pay five times more than our European counterparts for energy—gas and electricity. I think that something should be brought in so that we are paying on a level playing field with these European competitors, and to give this industry a chance. There have been questions asked before about Germany, I think; that they pay slightly less than people in their own homes. That would be something we would be prepared to look at. Hopefully, we can look at it with the Government, but it has to be looked at and we have to discuss it. Obviously, there would be implications for people not involved in industry, but I think that if we are serious about saving this industry, we have to have a level playing field in energy prices.

[217] **Mohammad Asghar:** What about Jeff? Can you tell us about the Swedish compensation system in the energy sector?

[218] **Mr Beck:** Yes, it's in the documentation that I provided. In Sweden, the PFE programme aims to encourage through incentives, through the Government, to reduce the amount of energy taxes there. They're bringing together representatives, not just from Government, but from businesses and the trade unions to work together to look at ways to control these taxes. You talk about a level playing field. In Germany, the Government there, 90 per cent relief they get from the energy costs, compared to this country. So, there are massive differences. There is evidence there that Governments can get involved and can provide this relief. Obviously, we'd like to see that happen in the UK.

[219] **William Graham:** Thank you. Mick, dumping.

[220] **Mick Antoniw:** Yes. Obviously, this is the nub of the challenge that's facing us at the moment. I'm wondering, in terms of the representations that the trade unions have made in respect of action on dumping, obviously, you had some impact insofar as there have been some tariffs introduced, but what are your views about the actual scale or urgency, or the level of tariffs that are being set?

[221] **Mr McCool:** Well, I think it was 9 per cent that was actually put in for a re-bar recently. When you look at the announcement yesterday of what the US is doing in terms of hot-rolled coil, they're putting 236 per cent onto dumping there. When they take these measures—. We were presented with a graph by Tata, and it was actually a map of the world showing us all the different steel makers in the world. Every single one, bar Europe, was putting in licences, tariffs or penalties for Chinese or any other form of dumping. When that happens, it comes to Europe. It comes to Europe in abundance because we're always slow to react. Then, when you've got the foreign exchange problem we've had over the last year, there's even a bigger propensity to put it into the UK. So, the real issue is that Europe has to wake up to this and actually put in reasonable tariffs. They were trying to work on the lower rate that they were talking about in terms of the percentage figures, and they were going off the basis of 1.5 per cent above the 9 per cent. No business can thrive off that. It can't. It will go under if those are the types of margins that they're actually working towards. So, wherever these decision makers are, they've got to be realistic and put these types of tariffs in, and they need to do it quicker. The same happened with energy. We still

haven't seen the energy relief, the compensation package, into our businesses yet. They're still waiting on the money. So, again, it's about the time and the speed of what—and how the Government reacts, and indeed Europe.

11:15

[222] **Mr Brady:** I think they're proposing looking at tariffs. We believe that, if a decent tariff—and we're looking at some and Steve's talked about the tariff in America et cetera—. The threat of tariffs and a serious tariff would prevent the Chinese from actually putting it on the boat in China. They wouldn't export it now. It has to be a serious tariff, and we have to be serious about, 'Are we going to do it?' We believe that the threat of that alone would prevent them sending this steel to be dumped.

[223] **Mick Antoniw:** You must have had these discussions with governmental representatives. UK Government is supporting the lower duty, and there's been a big move and, in fact, they've voted down consistently any moves towards moving away from the lower duty, which means that you have the lower tariffs. We've got evidence in front of us today from the Secretary of State for Wales saying that they support the lower duty. What explanation are you being given? What are your arguments against the use of the lower duty as the framework?

[224] **Mr McCool:** I actually attended the debate on Monday night in Westminster. What they're trying to say is that the lower rate doesn't need to be set as it is—it could be any level. If it required 30 per cent, then it should be 30 per cent. But you then need people who understand the industry. It seems to me that there are people making decisions on setting these rates who don't actually understand the implications of what is happening elsewhere in the world. As I say, there is nothing in Europe at this point in time, other than, as we say, for Celsa, in the re-bar case, which is 9 per cent. The lower duty rate—to be honest, the Government are saying to us quite clearly, 'Well, it's up to the people to make the decisions and base it at a level that gives a fair playing field', but we're not seeing that. We're not actually seeing it.

[225] **Mick Antoniw:** Have you taken this debate any further towards the issue of market economy status? It seems quite clear that there isn't the base of a market economy within there, but there appears nevertheless to be a move, which is being supported by UK Government, in order to allow China

to have that. We heard evidence a little bit earlier that basically says that, if that happens, it will probably be the end of the industry. You must have raised these issues with the representatives. What response are you getting to that?

[226] **Mr McCool:** We've made it clear, and we've said to the Government that we think they're being cheerleaders for China when it comes to this. I've read materials from the OECD that say that, across all sectors, if China was given market economy status, it would cost Europe 4 million jobs. In the steel industry, the figures that I read were that it would cost 350,000 jobs in Europe. You can forget it; it would be over. Anything we tried to do would be over with the stroke of a pen if China's given market economy status. And it wouldn't just be the steel industry; manufacturing would be even further impacted by that. The old cliché is that turkeys don't vote for Christmas; we shouldn't be doing this.

[227] **Mr Brady:** We have to get real on it as well. Eventually we all know that the price of steel will come back again. Steel will rise. If we give China market economy status or we're not producing steel in our own country, then we're at the mercy of these people when they're selling steel again because we'll still need steel for our infrastructure projects and we will be in a situation where they'll be able to charge what they like for steel, and what will happen then?

[228] **Mr McCool:** The price of steel at the end of 2014 on the global market was that it was getting sold at just over \$500 per ton. Within six months, it had halved. So, who's to say when you do away with your own steel industry—. You're held to ransom then over the cost of slab production.

[229] **William Graham:** Eluned, do you have a supplementary on that?

[230] **Eluned Parrott:** Yes, thank you, Chair. We heard earlier from Tata Steel that they would wish the Welsh Government, given the work that we've been doing with the steel industry, to be making a case on whether or not China meets the criteria for a market economy and, even if it does, whether or not it ought to be granted it. How would you respond to that? And what would you expect the Welsh Government to be doing with regard to that debate, if the UK Government clearly seems unwilling or unable to do so?

[231] **Mr Lucas:** I think we'd like the Welsh Government to make a statement that China should not be given the status. It's quite clear.

[232] **Mr Brady:** I think we should be standing—and, as Carl said, that should be as blunt as the statement should be. It shouldn't be happening. I think the question should be asked why the UK Government are encouraging it. They're telling us it's for other business infrastructures, et cetera, but as Steve just said, we believe that all manufacturing will suffer as a consequence. The questions have to be asked directly to Mr Javid and people like him—why they're so keen on cheerleading for China.

[233] **Mr McCool:** There are only, it seems like, two countries that are actually leading this discussion—Belgium and Britain. You don't see the other major powers. Germany is very dependent on the steel industry; they've got blast furnaces much like our own. You don't see them crying out for this market economy status. What we really need to do is use the information and statistics that are already out there to show how damaging—get it out to the public about how damaging market economy status would be to not only the steel industry, but manufacturing across—. And not even just that; 4 million jobs, is what I've read, in Europe. Why would we do that?

[234] **Eluned Parrott:** Can I ask how you think the mechanism by which the Welsh Government should be doing this—? There clearly is an opportunity now with the European Commission's consultation on anti-dumping measures. The question is, you know, what case the Welsh Government should be putting through there. Is that the mechanism you'd anticipate that they would use or are there other ways in which you'd see the Welsh Government influencing the matter?

[235] **Mr McCool:** It would be actually any channels—what we can do to actually get the message across. Public opinion is always a big, big thing in this, and actually trying to make sure that we've got, you know, the strength of argument coming right throughout the country. Indeed, again, joining up throughout the UK is very, very important. We've got MEPs there who can take the arguments and so on, so on. Quite clearly, it would do the steel industry in south Wales no good whatsoever if this market economy status is granted.

[236] **Eluned Parrott:** In terms of the UK Government's position, clearly, they're thought to be the ringleaders behind, you know, the opposition to the tariffs being raised as well, so can you understand what motivations there might be behind the UK Government's position on this in the broader economy?

[237] **Mr Lucas:** I think it clearly comes down to the other projects that they have in mind that they want Chinese investment into. That can only be, in my view, the reason why they are so proactive in trying to get the market economy status for China, because they know what's around the corner and the funding that they want to receive.

[238] **Eluned Parrott:** It's been suggested to us that one motivation might be to encourage or to lower the prices for steel users in the UK. Have you heard that one stated?

[239] **Mr Lucas:** No.

[240] **William Graham:** Okay. Mick.

[241] **Mick Antoniw:** Isn't the elephant in the room on this that market economy status is beneficial to the finance and banking sector of the UK economy and that the steel industry is being sold out for the sake of bankers and financiers?

[242] **Mr Brady:** Yes, I would totally agree with that. A colleague of mine said, quite clearly, that the Chinese want to take over the world, but they don't want to do it with bullets and soldiers, they're going to do it through manufacturing, because they're not just dumping steel, they're dumping things like tyres—everything. They're just flooding the world with everything. So, eventually, the plan is that they'll control all manufacturing and steel making et cetera. So, finance is a completely different—you know, it's a hidden thing. It's not something you'll see, but the UK Government become richer through different projects that we won't have a part of. It's very difficult.

[243] **Mick Antoniw:** Do you think the steel industry should have the same level of support that's been given to the finance and banking sector?

[244] **Mr Brady:** Yes. We've said before that if this was a financial institution, they'd be throwing money at it.

[245] **William Graham:** Thank you. Business rates, David.

[246] **David Rees:** Thank you, Chair. We've heard a lot about business rates, and one of the asks of the steel industry after the summit in October was,

obviously, business rates and a way of addressing those issues. Clearly, there's an issue, now, in that the Welsh Government has devolved powers over business rates and the UK Government also has its responsibility for business rates in England. State-aid rules, unfortunately, seem to be complicating matters in one sense. What would you expect the Welsh Government to actually do in relation to business rates, particularly looking at the plant and machinery aspects? Do you think discussions are going ahead to look at can we tackle the plant and machinery aspects of business rates and is there enough going on on a UK-wide basis to look at tackling the state-aid rules issues on this?

[247] **Mr Lucas:** I think, just generally on business rates, business rates have a part to play in the whole of the financial picture that Tata and other manufacturers have to deal with. So, any ability to be able to lower the business rates in themselves would be of use to anyone—certainly to Tata with the site that it's got. If you look at the size of Port Talbot and the amount of business rates that it would be paying, it would be a huge benefit to it. But it shouldn't be treated in isolation; it should be treated alongside all the other tariffs—the environmental tariff—that it has to pay, and in terms of whether it becomes an enterprise zone. All the factors, I think, have to be put into place to make it work. So, it's the joined-up thinking that we referred to earlier, really. I think that business rates is an aspect of it and the Welsh Government and UK Government, I think, should be doing what they can quickly to put into place the measures that can lower the cost to the UK manufacturing sites to make sure that that playing field is—it may not be level, but is getting to the point where it can be if you put all of the aspects into place at the same time.

[248] **Mr McCool:** Yes, there needs to be a package of measures to actually assist the industry and business rates is part of that. On a number of the taskforces that we're involved in—either the regional authorities or indeed in Scotland—they're looking at a business rates review, but I think the earliest that most of them are coming in is the next financial year, so it would be 2017–18 before any of the rewards of that would be experienced. I think that you're correct in this in terms of particularly plant machinery because in Port Talbot, they built the blast furnace to the tune of about £185 million and yet their rates bill went up by for £400,000. That is a hindrance to companies putting money into the economy and putting money into investment. So, we need to be much more realistic in what we're doing there. It's not helpful because it's holding it back. You don't see these same things in France and Germany—you don't. Again, it's something that is 10 times more, in some

aspects, of our European counterparts in terms of rates costs.

[249] **David Rees:** Are those discussions going on across the UK? Because we heard earlier that the UK are undertaking a business rates review, which is clearly going to delay what's happening in England. Are those discussions about plant and machinery going on in England as well or is it going to be a Welsh-led initiative that we want to see here?

[250] **Mr McCool:** No. Again, it would be to allow a platform for this to be experienced for any manufacturer across the UK. Again, if you think about it—if you're joining this across the UK and who does all this procurement—then the Welsh Assembly would benefit from a lot of the projects that we've got in Scotland and vice versa. Indeed, I do a lot of travelling, like my colleagues here, up and down motorways all of the time and you see that many bridges getting built and it's all heavy steel. You see central reservations getting put into concrete. It's all re-bar that goes into these things, so it has to be that joined-up. I don't think it really matters who leads this as long as people get the message that joining this up actually works.

[251] **William Graham:** Joyce and then Jeff.

[252] **Joyce Watson:** On the point of joining things up, there is a report from the construction industry on sectoral growth and in the private sector it's 2.5 per cent, but in the public sector, it's 7.5 per cent—in Wales, I'm talking about. So, it seems fairly clear that the statement in the budget, which is about to be announced—and we've already had a warning of another austerity budget in place—. Will you be making representations to the UK Government about making very early decisions in bringing forward the major projects that are on stream for delivery in Wales so that they then, in turn, can help to ensure the jobs that you are hopeful for—and this runs alongside, of course, procurement—in your industry?

[253] **Mr Lucas:** Yes, basically, Joyce. Yes, we would be making those representations. I'm just thinking, off the top of my head, that one of the major ones that we would like to see getting done, or the decision being made to pursue immediately, is the Swansea bay barrage. The amount of steel that would be required to go into that project is immense, but yet, we're having second thoughts: 'Should it, shouldn't it?' Make the decision and let's get that project going and make sure that it's UK steel or Welsh steel that's put into it. But that goes for all the projects that are in the pipeline in people's minds. We need decisions quickly; we need them with

the direction to use the UK steel and that in itself will provide a huge benefit to the industry itself.

[254] **Mr McCool:** It comes back to awareness. When we talk about steel, people don't realise how varied its application is in terms of design quality and everything else. When I was dealing with the Scottish taskforce, what they didn't grasp is that they would actually be procuring all this other steel requirement from other UK providers in England and in Wales. It's trying to get that message across that there is a benefit to all. Mentioning the Swansea barrier, you put heavy plate into the Swansea barrier, which could be provided from two Scottish plants if they were actually out of mothballing. But that's the point I was actually trying to make the Scottish Government aware of: 'Yes, you can lead in this as well because you could actually be putting contracts of great value into UK suppliers.'

11:30

[255] **William Graham:** Jeff.

[256] **Jeff Cuthbert:** Yes, thank you. This follows very nicely, I think, from the last question—from Joyce's question. As I understand it, it's not only an issue of the cheapness of the Chinese steel but also a quality issue and, as Joyce has alluded to, we have major infrastructure projects due over the next few years in Wales—the M4 relief road, the Swansea barrage, which you've mentioned, and the south Wales metro system, all of which should be high demand on steel. Will you be making those sorts of representations to get that commitment for British steel for those specific major capital projects and stressing the issue of quality?

[257] **Mr Lucas:** 'Yes' is the short answer.

[258] **Mr Brady:** Yes.

[259] **Mr McCool:** Yes, we will be campaigning on this. One of the things that's come out of this whole crisis that we're finding ourselves in is probably that we're more joined up than we ever have been with the actual employers. We are campaigning rigorously in terms of Europe and all this type of stuff. So, I think, out of this crisis, there is a greater bond in terms of trying to save the industry, but show the actual real value and quality of what we actually produce in the UK, which I think, often, is understated.

[260] **William Graham:** I think we get the point on major infrastructure. Clearly, you emphasised that—and the previous evidence also. It seemed to work reasonably well for Crossrail. The majority of steel there came from the UK. Hinkley Point: a lot of steel came from the UK there, but specialist casting certainly had to come from Germany. So, why did those go right and some other projects we don't seem to be getting right?

[261] **Mr Lucas:** I'd say it's more by luck than judgment.

[262] **William Graham:** Very good.

[263] **Mr McCool:** I think, again, it's a lack of traceability in the processes. We've got a lot of stockholders in the UK—ArcelorMittal and ThyssenKrupp and that—that have moved into the country over the last number of years. So, when they're sourcing the material, again, people fail to understand where it actually comes from in the first place. This is why branding's got to be right and the message about how we actually procure it in the first place when it goes out to tender. And, again, it's about the policy. The policy would be able to underline this. If we got some sort of a clause to say, 'x amount has to come from it' then I think that would deliver what we're after.

[264] **William Graham:** Any other questions from Members? Rhun, please.

[265] **Rhun ap Iorwerth:** We investigated or explored with steel producers this morning their appetite for entering into joint investment, joint ventures, with the Welsh Government or UK Government on, perhaps, specific schemes. We mentioned, perhaps, an energy plant at Port Talbot. They were clearly interested. Tata, certainly, were clearly interested in pursuing that. Would you agree that that is a possible way forward?

[266] **Mr McCool:** Yes, I would agree with that. Again, it's always about timing. It's difficult for companies to invest when you're in a crisis and the profitability's not there and so on and so on. But, again, the quality of what we do is out there and is up there with the best in Europe. When you look at projects like the power station and that, that then is planning for the long term. If you get that type of investment in there, then you're talking about a secure future, and hopefully a secure future for a long, long period of time. I go way back to when they were trying to look at joint ventures for the second coke ovens in Port Talbot many, many years ago. Again, there was always a reason why it wouldn't happen. The same is happening with the power plant. We know that Margam mountain has quality coke and coal in there. These are

things that we actually need to get off the shelf and into reality, because then you do create an environment for a sustainable steel industry in the UK.

[267] **Rhun ap Iorwerth:** And would you agree that the deeper the crisis the industry enters into, the more difficult then it becomes to justify that kind of public investment in joint ventures and, actually, it becomes more difficult to get round the state-aid rules and that that again highlights the need for urgent action on behalf of the UK and Welsh Governments?

[268] **Mr Brady:** I think that's what we've been saying all along here. There's plenty of rhetoric and ideas floating around, but there's no action. We need the UK Government to say, 'Look, this is what we're going to do. This is our plan', joined up with the devolved Governments or whatever, but there has to be something done because these words—we're running out of time for words.

[269] **Mr McCool:** There have been examples, again in Europe, about where people have stepped in. The Italian Government have done it in Ilva. Now, okay, there are different opinions as to how that came about, but the whole focus was to take that into state aid as state-owned at the time, but with a view to selling it on once it was profitable and it was meeting all its environmental challenges, because I think it was the environmental challenges that were giving that plant the most problems. But I think that £2 billion-worth of Italian money went into that. The view is that, then, you've got it fit for purpose and, you bet your bottom dollar, somebody will buy it, knowing that that's quite clearly the case.

[270] **Rhun ap Iorwerth:** That's happened in Germany as well, hasn't it?

[271] **Mr McCool:** It has. This is where—if you're looking at a manufacturing strategy for the long term in the UK, these are the things you've got to look at. Talking about the steel usage and whatever else, one of the fundamental things is defence. Defence. What do you do, suddenly, if you can't produce steel? Now, nobody ever contemplates that we're going to be in the dilemma of a war or whatever else, but that's one part of it. Strategically, for all these purposes, you do need the ability to make steel in the UK.

[272] **William Graham:** Mick.

[273] **Mick Antoniw:** In terms of the next stages, obviously things need to move quickly and you're obviously working with your counterparts in Europe

and other parts of the world, but what are the next stages now in terms of engagement with, I suppose, UK Government and with Welsh Government? What is the sort of strategy in terms of co-operation to achieve some of these things?

[274] **Mr McCool:** Well, with the Westminster Government, it's pretty difficult. We're actually trying to nudge them along so that they actually try to take the steps necessary to protect the industry, but it feels like it's a quagmire at times. It feels like we're not getting anywhere. They give us war in words, but effectively no action. They say they understand the industry and the plight of the industry, but I still think we've yet to see any decisive action. That would actually say otherwise. All that the Welsh Government can do, like other stakeholders in this—trade unions and employers—is to continue to lobby as hard and as long as we can. We cannot afford another SSI. I come from a steel community in Scotland, Ravenscraig, that had the exact same set-up as Port Talbot and what was Llanwern. That site is still vacant, and it closed in 1992. You never recover. You never replace the jobs. So, things like this are worth fighting for, I can assure you, because it has never—. There are two buildings on an eight square mile site now—a relocated college and a leisure centre, and that's it. That's what you're fighting for.

[275] **William Graham:** Thank you very much for your evidence today. I'm most grateful. There will be a transcript issued for you to see later. Thank you very much for your attendance.

11:38

Papur i'w Nodi
Paper to Note

[276] **William Graham:** Could I ask you, on item 4, to note the letter and accompanying evidence from the Secretary of State for Wales? Great. Thank you.

11:38

**Cynnig o dan Reol Sefydlog 17.42 i Benderfynu Gwahardd y Cyhoedd
o'r Cyfarfod**

**Motion under Standing Order 17.42 to Resolve to Exclude the Public
from the Meeting**

Cynnig:

Motion:

*bod y pwyllgor yn penderfynu that the committee resolves to
gwahardd y cyhoedd o'r cyfarfod yn unol â Rheol Sefydlog 17.42(vi).*

*exclude the public from the meeting
in accordance with Standing Order
17.42(vi).*

Cynigiwyd y cynnig.

Motion moved.

[277] **William Graham:** I'm going to move a motion under Standing Order 17.42 to resolve to exclude the public from the meeting for agenda items 6, 7 and 8. I see no objections. Thank you very much.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 11:38.

The public part of the meeting ended at 11:38.

Ailymgynullodd y pwyllgor yn gyhoeddus am 13:16.

The committee reconvened in public at 13.16.

**Cyllido Addysg Uwch
Higher Education Funding**

[278] **William Graham:** Good afternoon and welcome. Could I just ask if there are any declarations?

[279] **Eluned Parrott:** Yes, Chair, thank you. I'd like to declare an interest in that my husband is employed by a higher education institution.

[280] **William Graham:** Thank you very much. Okay. Could I welcome the witnesses and ask them to give their names and titles for the record, please?

[281] **Dr Blaney:** Good afternoon. I'm David Blaney, chief executive of the Higher Education Funding Council for Wales.

[282] **Ms Owen:** I'm Bethan Owen, director of institutional engagement.

[283] **Ms Hunt:** I'm Celia Hunt, director of strategic development at HEFCW.

[284] **William Graham:** Thank you very much. I'm going to start the questioning, if I may. Could I ask you to what extent the reaction from the sector generally influenced the Welsh Government's decision to subsequently change the allocations, and, particularly, for your reaction to Jane Hutt's announcement that your transfer of £21 million would not proceed, and that £10 million would be allocated for part-time provision and research?

[285] **Dr Blaney:** Okay. If I kick off, and, in starting to respond to that, can I just offer a caveat that our council meets to discuss the impact of this changed allocation next week, so I need to be careful not to pre-empt those conversations? And, indeed, we don't have a remit letter yet, either, even in draft, so I need to be a little bit cautious about that.

[286] We have submitted, as part of the support for this conversation, our evidence that we submitted to the Finance Committee, which I'm sure you'll have read. I just thought I would touch upon the fact that we do explore in that submission, and have on previous occasions explored, the issue of the relative resources within Wales relative to the rest of the UK. I just wanted to touch very briefly on that, because, of course, higher education is increasingly a competitive international enterprise, and the fees and funding regime in Wales depends upon the Welsh sector looking attractive to students from the rest of the UK. Indeed, the competitive position of the Welsh higher education system and its capacity to deliver for Wales depends upon looking attractive to good academic staff, as well. So, that's why we go on about the relative position. I just thought I ought to make that clear. It's not a Wales-only issue.

[287] In terms of the specific question, you would have to ask Welsh Government exactly how they were influenced by various reactions. Following the draft budget announcement, we were involved in a number of conversations between ourselves, the sector, and the Government. They weren't negotiations, they were conversations, and what I would say on the back of that is that we established, I think, a much clearer understanding of the potential consequences of the original draft budget than had previously

been the case, particularly in respect of some of the senior officials involved. I think that was a very constructive process and it's reasonable, I think, to imagine that that clearer understanding contributed to the change in the position.

[288] In terms of the announcement by Jane Hutt subsequently, clearly, we're pleased to see the changes that have been announced. We are still dealing with a reduction, but that's not uncommon across the public sector, of course, and one of the consequences of that—. We expect to model to allocate all of the money that will be in our budget, notwithstanding the fact that £21 million will be at risk until probably about Christmas time next year when we have a clear sense of how much pressure there'll be on the tuition fee grant element for the Welsh Government. So, they might still come back for some of that. We will model to allocate it, though. There would be no point in us having that money in our account sat there for a rainy day; that would be silly in times of hardship. It would be silly at any time, actually.

[289] There is still a reduction that we will have to play through across the funding lines and, in particular, it's going to be very hard to see how we will have money available in our account for steering anything other than part-time, research and some expensive subject premium contribution. So, some of the other elements of work that we've done in the past that have been assisted by some funding, we won't be able to do in future.

[290] **William Graham:** Thank you very much. Rhun.

<p>[291] Rhun ap Iorwerth: A allaf i ofyn mewn termau cyffredinol sut y gwnaeth penderfyniad Llywodraeth Cymru i fynd ar ôl y toriad mawr yna o dros £40 miliwn yn y cyllid effeithio ar y berthynas rhwng HEFCW a Llywodraeth Cymru?</p>	<p>Rhun ap Iorwerth: May I ask a question? In general terms, how did the Welsh Government's decision to pursue this major cut of over £40 million in the budget affect the relationship between HEFCW and the Welsh Government?</p>
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[292] **Dr Blaney:** So, we sit as an intermediary body, clearly, between the Government and the providers. We should remember it's not just universities, it's also some FE institutions that provide some higher education. So, inevitably, there is an inbuilt structural tension there, which is, if you like, a healthy tension. We sometimes think we've got it right when we're being criticised by both the Government and the sector; that's normally a pretty good sign that we're pitching ourselves where we should be.

[293] That said, you know, an awful lot of what we do is beneath the radar, so we have conversations challenging institutions. Those conversations won't be visible to the Government and, similarly, we have conversations with Government that won't be visible to the sector. That can sometimes give rise to the criticism that we suffer from, because, actually, people don't know, really, what's going on fully. We do, but we're about the only ones in the system who do in that respect.

[294] As a staff and a council, we have a wealth of expertise and knowledge in higher education, and I think we would aspire to a situation where there was a habit in the Government of seeking our advice on all issues. That's not always the case. It varies, and sometimes there are political reasons for that and sometimes it's just oversight, I think. But that's certainly where we would like to be, because we think we can help.

[295] Following the publication of the draft budget, as I've indicated, there was, actually, a very constructive set of conversations between ourselves, the Government and the sector, which I think led to a better understanding of the circumstances and of the actual impact of the proposed cuts. That sort of constructive engagement is where we would like to be.

[296] **Rhun ap Iorwerth:** I guess you're right in saying that the discussions that took place between Welsh Government and HEFCW wouldn't have been in the public domain, as such. They would have gone on under the radar. That wouldn't be the case, though, for the very public discussions, if I can call them that, between the Government and the sector when Ministers were very robust, shall I say, in defence of their initial decision to go ahead with that deep, deep cut, despite the change that Government came up with subsequently. How did that, do you think, affect the relationship, from where you're looking, between the sector and the Government?

[297] **Dr Blaney:** I think there's a distinction that can usefully be drawn between political positioning on the part of both the Government and the sector and the reality of constructive conversations that sit underneath that. So, I'm more interested, from our perspective, in what's going on in the constructive conversations than the political positioning. It's an occupational hazard, political positioning, and it kind of happens. I think it's important that neither side gets too upset about that, because that's just kind of stuff. But what really matters is the understanding that Government and the sector have of each other, and an important part of our role is to represent the

Government to the sector and the sector to the Government, so that understanding is as well developed as it can possibly be.

[298] **Rhun ap Iorwerth:** If I can throw one context into the way that, perhaps, we should be looking at this and the fact that the Diamond review is due to make recommendations later this year, try to give us an insight, if you can, about what the feelings were then in those below-the-radar discussions about the fact that Government was intending in its draft budget to press ahead with major cuts ahead of the publication of that review.

[299] **Dr Blaney:** So, I would take the view that we have to recognise that there is an austerity kind of agenda running, which does cause the Government to have to make some difficult decisions. We certainly understand that, and I'm comfortable that the sector also understands that. So, it's not always possible to wait on these decisions until a timetable for a particular process gets to a point of publication. So, it's not necessarily the case that they could wait for Diamond; on the other hand, the key issue in the budgetary pressure for higher education is not really austerity, it's really the amount of money that's being spent on tuition fee grants. That's really where the pressure is coming from. That is clearly a Diamond issue. I guess it would be a shame if we were to get to a place where there was a degree of instability in certain institutions, caused by decisions now, where we're so close to the possible outcome of a set of recommendations, which might help to address the underlying issue. My guess is that the sector would have felt the same.

[300] Clearly, these budget cuts, had they happened, would have impacted differentially across the sector. Even if we'd allocated them pro-rata across the sector, different institutions are in different positions of financial strength and resilience. Our assessment was that we would have seen about half the sector having to make substantial cost savings in order to avoid going into deficit, and cost savings at that pace are, essentially, jobs. You can't sell buildings quickly, but you can deal with jobs relatively quickly. We're in a different place now, given the revised position of the Government, which is helpful, I think, and hopefully we'll be able to see ourselves maintaining a degree of stability until the Diamond recommendations come out and we move this to a different policy context.

[301] **Rhun ap Iorwerth:** And, finally, can I assume that in those tripartite discussions—the sector, you and Government—it would have been made very clear to Government that you felt and the sector felt that the decision was

about to be made in the draft budget was somewhat premature or, at least, failed to take adequately into consideration the fact that the Diamond review was coming and might have a material impact on financial decisions that needed to be made by the Government?

[302] **Dr Blaney:** I think what was made clear was that the way in which institutions respond to budget pressures is conditioned partly by their circumstances, but partly by the sense they have of how long that budget pressure is going to remain for. So, if you've got a situation where you've got a one-year dip and possibly sunny uplands post-Diamond, then your response to that is quite different from a situation where you can't see the sunny uplands. So, I think, certainly in those conversations, there was an exploration of what we were actually dealing with—was it a one-year dip and something else to come, or was this the future reality, in which case the responses would have been different. So, the juxtaposition of this budget settlement and the Diamond process was part of that conversation.

[303] **Rhun ap Iorwerth:** Okay, thank you.

[304] **William Graham:** Mick.

[305] **Mick Antoniw:** The budget of HEFCW over the past few years has been relatively stable, certainly by comparison with other sectors. Is that a fair comment, because this is one of the issues that's raised in the discussions over this?

[306] **Dr Blaney:** I think it's fair to say that the amount of money that the Welsh Government is investing in higher education has been largely protected and that's largely because of the commitment to the tuition fee grant. Once you've got that commitment there, it's an on-demand amount, and you have to spend it if students enrol who are eligible. It's not the case that our budget has been protected; as the tuition fee grant costs have extended over the years, then the amount of money that we've had to invest in other parts of the Welsh Government priorities for higher education has diminished quite substantially and, in our Finance Committee submission, we had a graph that, I think, shows that.

[307] **Mick Antoniw:** Amongst the areas that have arisen while discussions were taking place over the HEFCW budget were, I suppose, the points made about what the financial position was of the higher education institutions themselves. There has been some controversy over references to the level of

reserves that are being held within the higher education sector. What is the level of reserves being held in the higher education sector?

[308] **Dr Blaney:** The term 'reserves' has a particular accounting meaning, so I'm going to defer to my accountant friend here to help with that.

[309] **Ms Owen:** I think he means me. On the term 'reserves' and some of the numbers, universities have general reserves, but the vast majority of those have been invested in the infrastructure, largely in land, buildings and facilities. The reserves that are relevant are the liquid reserves, the cash or near cash that universities are looking at. That's a much lower amount and universities, as large organisations, have to maintain a level of cash that is reasonable for meeting their costs. They also have significantly increasing bank borrowings, and there are covenants attached to those that also put minimal liquidity requirements.

13:30

[310] It's probably also just worth saying that the cash levels that are published are those at the end of the year, which is the end of July. Since the majority of the fee funding now flows to universities through the Student Loans Company, the majority of the money that comes into a university comes in at the tail end in May, whereas, of course, during the year they have funded the cost. So, there is quite a fluctuation in cash management and cash available within universities within the year.

[311] **Mick Antoniw:** I do appreciate that, and we have the same sorts of issues arising when we're looking at reserves with local government and other institutions as well; you've given me a very good accountant's response. But if we had to take what the top figure is in terms of what the reserves actually are, or what you'd say the liquid reserves are, do we have those sorts of figures?

[312] **Ms Owen:** Yes, we have them and we can supply those to you.

[313] **Mick Antoniw:** You don't have them now.

[314] **Ms Owen:** Well, the 2014-15 accounts for the Welsh sector and the reserves—the cash reserves; the liquid reserves—are about £300 million; I'm giving you rough numbers. And they approximate to about three months of normal expenditure, so that's—*[Inaudible.]*

[315] **Mick Antoniw:** But with the non-cash reserves as well, what would the global—?

[316] **Ms Owen:** I think they were about £800,000, with the caveat that that's a figure without the pension, but the pension liabilities come off that.

[317] **Mick Antoniw:** I understand that. I think that's really helpful to have an understanding. Just one thing: you referred to the way in which you've sort of liaised with Government and with the sector, that you know what's going on, you have a conversation, then you have a conversation there et cetera. It all sounds very non-transparent; I mean, it all sounds very, sort of—. The fact that, as you say, you're only the ones who actually really know what's going on. I mean, is this the best way to actually organise, because it sounds to me as though it's a little bit dysfunctional?

[318] **Dr Blaney:** I think what we would try to do is to make sure that nobody is making decisions and taking public positions that are all ill-informed. So, I don't think it's so much a lack of transparency; it's actually trying to prevent difficulties from arising in the first place. Some of these conversations concern matters of commercial confidentiality. We have material from the universities that is supplied to us in confidence so that we can undertake that role, but we wouldn't, obviously, want that to be played out in public because there are commercial considerations there.

[319] **Mick Antoniw:** Okay, thank you.

[320] **William Graham:** David, you had a short—

[321] **David Rees:** Yes, thank you, Chair. Just a short clarification: prior to the tuition fee increase and the Student Loans Company basically taking over the funding aspect, if I remember right, the funding used to come from HEFCW in the teaching block grant. And you said that your figures dropped substantially. Is it because of these that we actually lost the teaching block grant allocation, or have you substantially—? The element you've got now— has that element dropped substantially? Because, clearly, if you know what I mean, you used to have a lot of money for the teaching block, and that's where most of the funding used to go to universities. You've now got limited money because you're not delivering that anymore.

[322] **Dr Blaney:** Yes, so we—. I mean, our money comes to us largely

unhypothecated, and we allocate it on the basis of various metrics. And, essentially, there were three main elements previously. So, there was teaching, which was part-time, full-time, undergraduate, postgraduate and various elements around that; there was research; and there was other stuff, if I can put it in those sorts of broad terms, and we could go into the detail of that.

[323] On the tuition fee grant, it was intended that the cost of that would be met from reducing our budget, and it was anticipated that the impact of that would be to reduce our budget by 35 per cent of what we were spending on teaching. At the time, 35 per cent of what we were spending on teaching—it depends a little bit how you define what we were spending on teaching—but the most generous interpretation of that 35 per cent would have been about £105 million. We're now spending in excess of £200 million a year on the tuition fee grant. So, the kind of pressure on our budget now extends way beyond what we were spending on full-time undergraduate teaching; in fact, way beyond what we were spending on teaching, full stop, and it now has encroached into other areas of policy priority. Does that answer your question?

[324] **David Rees:** Not quite, no.

[325] **William Graham:** Eluned.

[326] **Eluned Parrott:** I wonder if I might return to the question of reserves and try and understand a little more about how much it might be responsible to expect the universities to dispose of those reserves in various ways. You talked about some of those reserves being set against covenants on borrowing, for example, in terms of the cash and near-cash reserves. Can I ask if you've made an assessment of how much of that reserve available is not covenanted and therefore available? What is the low point in April before the tuition fee money comes into the universities?

[327] **Ms Owen:** I should probably just clarify that the covenants between universities will vary depending on the extent of borrowing, and what I was trying to express was that it's not covenanted money, but there is an obligation in the covenant that you don't go below a certain threshold of liquidity—it's a balance between your commitments and your cash.

[328] The low point, again, will vary by institution. I think that if I was taking our largest institution, it could be up to £40 million difference between the

balance at the end of July and the low point, which is April, before the May 50 per cent funding comes in, but it will vary by institution. We wouldn't have the precise detail of fluctuations in-month for all of our institutions. Our engagement with institutions is different, depending on their financial positions.

[329] **Eluned Parrott:** So, you wouldn't be able to make an assessment of how much of that reserve was, in effect, disposable or not disposable.

[330] **Ms Owen:** The cash reserves are maintained for—and institutions will assess this individually—them to continue their ongoing work and every institution will have to make their own assessment as to the extent of uncertainty and what they need to have as cash available to hand. Three months is the average for the sector and that's three months of just normal, ongoing costs—normal creditors and payroll—and that, as well, will fluctuate significantly by institution. There's a lot more very close cash management going on in the sector than there would have been in the days when we were paying funding, reasonably flatly, over 10 or 12 months of the year. Again, it will depend what the capital plans of the universities are and they're all setting thresholds for themselves that a responsible organisation shouldn't go below in terms of cash reserves.

[331] **Eluned Parrott:** Okay, thank you.

[332] **David Rees:** Previously part-time provision has always been part of HEFCW's remit, and one of the concerns, I suppose, that I've always raised is the impact that it will have on part-time provision, because that is a way for many people to get into education, to get retrained and to actually advance themselves or, if they are in work, to take opportunities. The Government has indicated that it should prioritise at least £5 million for part-time. I hope actually that it might want to prioritise a bit more than that, but what impact is it having on part-time provision in Wales, particularly given that many institutions are able to perhaps deliver part-time provision at the same time as full-time provision, if they're innovative and creative? But the Open University is a clear example that that is not possible because they don't have full-time students. So, how are you working with that?

[333] **Dr Blaney:** There are a number of questions wrapped up in that one and I'll make a start. The position in respect of part-time across the UK actually is that there's a decline in part-time student numbers. That decline is much more marked in England than it has been here in Wales, and one of

the reasons for that is that we have been able to, as far as we can, maintain the funding that we're putting into universities in respect of their part-time provision, which means that they don't have to put up their fee levels quite as much as has been the case elsewhere in the UK.

[334] The part-time market is fairly price sensitive. Having said that, the part-time market is not homogenous—it's very heterogeneous. There's all sorts of different types of part-time student, studying different types of product for different reasons, and this is one of the real complexities of trying to get a handle on a policy position for part-time. It is important, and we know that it's important for widening access and also for upskilling and reskilling—it matters, but it's quite hard to define it in a way that means that you can construct a policy position that's very tidy for all the different types of part-time.

[335] You are right that there are different ways of delivering part-time higher education for universities. So, some will have part-time provision that is discrete from their full-time provision, and that then depends on there being enough students to make it economically viable. Some will do infill with full time; others will infill their full time into part-time, depending on their attitude.

[336] The Open University, as you rightly say, is unique. It is not able to do any of those things other than have a discrete part-time offer, and it has no other income sources, certainly from the Welsh funding arrangements, with which it can cross-subsidise the part-time. The other universities can use some of the full-time tuition fee grant to make it possible to sustain part-time. That is not possible for the OU. So, for the past few years, we have been providing additional funding for the OU in order to compensate for the fact that, actually, they can't cross-subsidise from other sources. It's an important institution; it has an important offer to the Welsh higher education market. It's not an offer that works for all students. It's a particular type of portfolio, but it is important, and we are quite keen to not cause the OU sustainability challenges because of the pressure on our budget from the tuition fee grant.

[337] All of this, I should say, is part of the agenda for the Diamond process. So, we'll have to see how that unfolds, but there clearly is a desire to try and make sure that we sustain a part-time higher education offer in Wales, and actually to grow it would be nice.

[338] **David Rees:** Can I—

[339] **William Graham:** Keep it short because I'm trying to make progress, please.

[340] **David Rees:** It is very quick. Are you therefore saying that you'll continue with that operation of supporting the Open University because they don't have the full-time ability to replace and support them?

[341] **Dr Blaney:** I can't pre-empt the discussions that we are going to have with our council next week, but I can confirm that we are fully aware of the issue.

[342] **David Rees:** Thank you.

[343] **William Graham:** Thank you very much. Oscar.

[344] **Mohammad Asghar:** My question will be short anyway. Bethan will probably be answering. On expensive subjects like dentistry and medicine, how much does it cost the university to subsidise them? Also, are there concerns that the supply of newly trained doctors and dentists to the health sector will be adversely affected by these higher education budget decreases? Are these concerns now valid?

[345] **Ms Owen:** Our expensive subjects premium is about £15 million—£14.7 million. The majority of that is for medical and dental provision—£10.5 million to Cardiff University and £2.6 million to Swansea, and the balance is for conservatoire provision at the college of music and drama. That resource is the top-up that we pay for those expensive subjects, but they are the only areas that we're able to provide a premium for.

[346] **William Graham:** Eluned.

[347] **Eluned Parrott:** Thank you. I wanted to ask about the quality research agenda, if I may. In the supplementary budget announcement on 9 February, obviously, we had a £5 million allocation in addition put towards this purpose, described as a key priority. So, can you tell me what difference you think this extra £5 million will make to supporting that agenda?

[348] **Dr Blaney:** I think the additional funding provides us with scope to hopefully maintain our current levels of investment in the research

infrastructure and thereby hopefully sustain the current competitive position of the Welsh higher education system in respect of this. It has to be said that our level of investment in QR is, relatively speaking, less than that which is going on elsewhere in the UK, and that's just a function of the pressure on our budgets. But we have, in recent years, maintained that level of investment at flat cash in order to do our very best to sustain it. It's very important because that infrastructure that is funded by QR is an essential component of the capacity of Welsh institutions to bid for other funds—European funds, Horizon 2020, to support the Sêr Cymru initiative, to bid for research council funds, all of which are, in a sense—. Most of these are ways of getting at money that is provided from outside Wales. So it's an inward investment—leveraging inward investment for research. But it also, of course, makes a contribution to the knowledge base of Wales, so there's an economic impact as well. So, we're very keen to sustain this. In the future, we'd love to grow it because, actually, it's compatible with the long-term economic growth aspirations of the Government.

[349] **Eluned Parrott:** Is there any evidence that that worsening competitive position between English and Welsh higher education institutions is having a detrimental impact on our ability to bid for research funding from elsewhere already?

13:45

[350] **Dr Blaney:** There is. There are a few things to say. The Welsh research base is actually fantastically productive, and there are independent studies that have demonstrated this. Nearly half of the research base in Wales is world leading in terms of its impact, and that's better than elsewhere in the UK. So, the productivity of the Welsh research base is quite impressive. I'm not making claims for myself there, obviously. We've got people who are very, very effective at leveraging activity from a relatively limited resource, but we do know that one of the fundamental issues about the extent to which the Welsh sector can play, and particularly in respect of research council funding, is simply the number of researchers we've got. There is already evidence, which is cited by the Chief Scientific Adviser for Wales, about the deficit of researchers in Wales. I think it's something like 600 that she quotes. That, really, is fundamentally a product of us not having been able to invest adequately in research over a long period.

[351] **Eluned Parrott:** And how do you focus that QR funding to make sure that it really is targeted at helping us to speculate to accumulate, if you see

what I mean, in terms of other sources of research income?

[352] **Dr Blaney:** Well, we increasingly are becoming selective in the way in which we allocate that research funding. So, we allocate on the basis of two dimensions, essentially. One is scale and one is quality. So, we use the periodic research assessment exercise. The last one was a research excellence framework, which is a UK-wide exercise for judging the quality of research, and that gives us the quality dimension, and we increasingly put more of our money at the top end of that range. We don't fund the bottom now. We also have measures within our funding of research, which is different from elsewhere in the UK, whereby we effectively don't fund very small groups. The rationale for that is that those very small groups are, by nature, quite vulnerable. You only need one. If you've got a group of three researchers, you only need one to retire and you've got a problem. So, there's an issue there about the contribution that makes to the long-term growth of the economy in Wales. But, also, there's an issue about good investment of public money in something that is relatively fragile. So, we have a volume threshold as well.

[353] **Eluned Parrott:** In terms of the prioritisation of QR as a strategic objective, does that have, then, a knock-on impact on other important things like innovation and engagement in the investment that is available there?

[354] **Dr Blaney:** Absolutely. So, we used to have innovation and engagement funding, which used to operate—it was a lower level of funding—in a very similar way. It used to help to fund the infrastructure for innovation and engagement, for the capacity of institutions to engage with employers, particularly businesses, and we don't do that anymore because we simply haven't got enough money to be able to do that.

[355] **Eluned Parrott:** Thank you.

[356] **William Graham:** Jeff.

[357] **Jeff Cuthbert:** Yes, two questions, and first of all about support for postgraduates. Now, we've been told by the Deputy Minister for Skills and Technology that the Student Loans Company do not have the capacity to do a system in Wales that's going to be similar to what England are planning to do in terms of introducing loans for postgraduates in 2016–17. What are your comments on that? How should provision for taught postgraduates be funded more effectively, and what do you think the impact could be of not

introducing a loans system for postgraduates Wales?

[358] **Dr Blaney:** So, it's a very interesting set of issues here. The Student Loans Company is owned by Government, but owned by Government UK, and therefore the Welsh capacity to influence that is clearly less strong than the English. There's an issue, which you would have to talk to Government about, in terms of how that is managed and what they're doing about it. It's not for us. I think there are also signs that the Student Loans Company does have capacity limits. So, their ability to respond to changes quickly is limited. I suppose that's the same for everybody. But one of the other dimensions to this issue is that it's a nice example of where a policy change in England requires, in the end, a policy response in Wales because of the porosity of the border. Higher education in Wales is not something that stops at Offa's Dyke. So, you had a policy change in England and it took some time before it became clear exactly what the detail of that policy change was going to be, and indeed whether it was actually going to happen. It was proposed, and by the time it became clear what it was and that it was actually going to happen, and then the Welsh Government was able to start responding to that, the SLC had then run out of time to be able to respond to the Welsh Government request there. So, it's interesting, both in terms of the extent to which Government can lever influence over the SLC, but also the extent to which there is an England-Wales dimension to higher education as well.

[359] In terms of the consequences of this, it's too early to say for sure, but I think there is a real prospect that there will be a decline in demand for postgraduate taught study in Welsh institutions, because there'll be support elsewhere, and that, in the end, is not healthy in terms of the feed-in of higher level skills into the Welsh economy. Hopefully, that will be a short-term issue and we'll come to some resolution, presumably through the Diamond process. It's on the agenda there.

[360] **Jeff Cuthbert:** Alright. I note what you say there about the Diamond review, but do you see it as a capacity issue, not in terms of—. Correct me if I'm wrong. Is it capacity in terms of not having enough money to finance it, or in terms of the Student Loans Company's human resources, as well? What is the key issue that's stopping what's happening in England from happening in Wales?

[361] **Dr Blaney:** You're testing at the limits of my knowledge on this, because we don't manage the relationship between Wales and the Student Loans Company. My understanding is that there are human resource capacity

limits at the SLC and the timing of this, in terms of a Welsh request, was just one step beyond where they could respond. But you'd have to ask the Welsh Government if you want more—

[362] **Jeff Cuthbert:** Maybe we could ask the Minister for that. Okay.

[363] My second question is about widening access—something that's particularly close to me. I've always believed that universities—and it is their responsibility—should seek to expand their activities to attract young people from some of the most disadvantaged areas who may otherwise not think that higher education is for them. There are the fee and access plans. How effective do you think they are?

[364] **Dr Blaney:** I'm going to ask Celia to pick up on this, please.

[365] **Ms Hunt:** The first thing to say is that Wales has traditionally been very good at widening access. Indeed, the UK performance indicators show that, in a number of areas, Wales outperforms the UK in bringing in underrepresented groups to higher education, and, of course, not just young people, but also mature entrants.

[366] In terms of the fee and access plans, they are actually now, under the Higher Education (Wales) Act 2015, a tool for regulation, and that's quite different to working through providing additional funding. They are significantly less flexible in that way. The timescales for the approval and operation of fee plans are much more extended, and the sanctions and the way in which sanctions can be applied are also quite extended. So, the tools are rather blunt compared to funding levers, which are much more flexible. So, from that perspective, fee plans may not deliver as much as funding has in the past.

[367] We have tried to use them as a lever by building in an expectation to meet our corporate strategy targets in relation to recruitment from Communities First areas, recruitment from low-participation areas, and we were expecting institutions to report outcomes. So, we were interested in the outcomes of that process, rather than in the detail of what they were doing. But under the new Act, there is much more emphasis now on the detail and perhaps less on the outcomes. We're not going to be able to build those expectations now into the fee plans and what we're expecting is that the institutions will be setting their own targets, and it may be difficult for us to get a collective position together.

[368] I think one other problem with fee plans being a regulatory tool is that it's about each individual institution, whereas what we like to see, in a widening access context, is people working together. We want partnerships, and not just between universities. We want partnership working with schools and further education colleges, and also with bodies, for example, in the social care side in relation to care leavers. So, that's what we really want, and fee plans aren't the best way to achieve that.

[369] We do have a very small pot of funding at the moment for something called reaching wider partnerships, which you may have heard of. There are three partnerships operating across Wales, they get a relatively small budget, but they are the vehicle at the moment for encouraging universities to work together with a range of partners. The Open University, for example, is a member of all three. So, it's to make sure that they are able to collaborate. But the extent to which we're going to be able to support that, going forward, depends on the budget and council's decisions.

[370] **William Graham:** We've got five minutes for two more questions. Eluned, please.

[371] **Eluned Parrott:** Thank you. There's no change to the funding for the Coleg Cymraeg Cenedlaethol for the next financial year. I'm wondering what assessment HEFCW has made of the value for money that that Coleg provides.

[372] **Ms Hunt:** We undertook an evaluation in 2014; Dateb and Old Bell 3 undertook that evaluation. They felt that it was probably too early to really evaluate the progress of the Coleg, and, in fact, we normally assess that progress against the amount of students who are being recruited to Welsh-medium provision in Wales, and they felt it was too early to look at that target. However, they looked at a range of other measures in terms of what the Coleg was actually doing, and it's been very proactive across a range of measures, particularly in building the supply of Welsh-medium provision, rather than necessarily stimulating demand, because they didn't want to stimulate demand if the supply wasn't going to be there. The conclusion was that the achievement of those outcomes represented a significant step towards creating a sustainable system for Welsh-medium higher education.

[373] I think the issue, though, for the future perhaps, is that at a time when there have been pressures on public sector funding generally, the Coleg has

actually experienced substantial year-on-year growth in its funding to cover, particularly, these additional academic staff. We're now looking at over 100 new academic staff across Wales to increase the amount of Welsh-medium provision. I suppose that means that they have had an increased budget available to them to pull staff in and to take that agenda forward, and that's the sort of thing that we need to look at in future, in looking at future funding.

[374] **William Graham:** Thank you very much. A last quick question: your own budgets are going down by 10 per cent, what effect is that likely to have?

[375] **Dr Blaney:** So, over the last few years, we have reduced our staff base by nearly 20 per cent already. When we had the process of the 2015 Act going through, up to the Bill, we were clear there that, in order to meet those additional statutory responsibilities, we would need more resource. In fact, we estimated that as being about another nine staff. At the moment, we're absorbing all of those pressures without any additional resource. We have the prospect of further statutory responsibilities coming our way—things like Prevent and so on. We have made it very clear to the Government that we are struggling to see how we can absorb a further 10 per cent cut with a growth in our responsibilities and be able to meet our statutory responsibilities. So, it's a conversation that we are having with the Government, and it's important to make the point, I think, that although we now have a statutory regulatory function under the 2015 Act, we're still a funder. The Further and Higher Education Act 1992 requirements still exist for us, almost unchanged. So, the regulatory role is additional and not in replacement of the other functions we have. So, at the moment, we are absorbing that pressure. We're doing it with a very committed group of people in the workforce in HEFCW. We're doing it, I think, probably at some considerable cost to work-life balance and that's not going to be sustainable either. So, the short answer to your question is: it's going to have a fairly significant adverse impact.

[376] **William Graham:** Thank you very much for your evidence today. We're most grateful for your attendance. Thank you.

[377] **Dr Blaney:** Thank you.

14:00

**Gweinidog yr Economi, Gwyddoniaeth a Thrafnidiaeth—Pwysau sy'n
Wynebu'r Diwydiant Dur yng Nghymru**
**The Minister for Economy, Science and Transport—Pressures Facing
the Steel Industry in Wales**

[378] **William Graham:** Good afternoon, Minister. Thank you for your attendance this afternoon. Could I ask you just to give your name and title for the record?

[379] **The Minister for Economy, Science and Transport (Edwina Hart):** Thank you very much indeed, Chair. Edwina Hart, Minister for Economy, Science and Transport.

[380] **Professor Loveland:** Professor Ron Loveland, energy adviser to the Welsh Government.

[381] **William Graham:** Thank you very much. As you know, we had discussions this morning with the steel industry and the trade unions, and so we're trying to understand the nature of the relationship between your Government and the various parts of the steel industry. Can I ask, really, to begin, how aware were you and your officials of the problems that had been principally suggested some time ago and how those came to reality really very quickly?

[382] **Edwina Hart:** We've been aware over a long time of the problems within the steel industry in Wales. Whether it be Tata or whether the problem is with Celsa, we've been in discussions since I've been a Minister. Obviously, with the steel industry, I didn't have steel responsibility initially, but I know, since I've had responsibility, we've had that type of discussion. But, before that, we had very high-level discussions at all levels, hence of course the First Minister being able to go to India to speak to Tata Steel, and several visits of course, I have to say, into Spain as well, Catalonia, to speak to Celsa about some of the issues that they had. What emerged from those discussions was the key issue for them initially, which of course was the high-energy-cost issue that we'd been raising as a Government for quite a number of years, because they saw that as being the key. Celsa did a substantial amount of work to do an analysis of the energy cost issues against their European plants, which, at the end of the day, I think, was instrumental in getting the UK Government to look at a scheme, because they had done such detailed work on energy costs, because they saw it as being

the key area.

[383] Interestingly, yesterday, Chair, we were at a meeting in London with the steel council, with the UK Government and officials from the Scottish Government, with the whole of the industry in terms of the trade unions, when they were talking about what was happening once again with energy costs in Europe. There was a rumour going around that the French had already changed energy cost prices downwards in terms of anything that was being done just in recent weeks. So, we understand what goes on in Europe is they make energy rates extremely competitive for high energy users and yet we don't seem to be able to get the right balance here in terms of what we do, which is almost a market that doesn't help the companies. I think that would be the background, Ron, because you've had extensive discussions for years with the steel industry.

[384] **Professor Loveland:** That's fair. The only caveat on that is that the China problem is a fairly recent one.

[385] **William Graham:** Minister, just as a supplementary to that, if I may, in terms of inter-government relations, how have you found that? Have you been able to make the case with one voice, as it were?

[386] **Edwina Hart:** I think, since we had the first steel summit, we have had a good relationship with Anna Soubry, who is the Minister who is directly responsible. She is quite passionate, I think, about the industry. I think you will find out as well from the unions that have dealt with her that she has been quite straightforward in her dealings. We had a meeting with her yesterday about the issues that we felt needed to be grappled with. We wanted to know what was happening to the Chancellor's report on business rates, because that's quite important for us in those terms. We also asked as well about the globalisation fund, because we're quite keen to see if we would be allowed to bid, if the UK Government would allow that and what the UK Government were doing, because, as you know, they changed their mind on money for flooding and they made a bid on that. In terms of Anna, we were also keen to find out what further representations had been made on the whole issue of tariffs within Europe, which was a massive focus of discussion yesterday, I would say, in the steel council meeting that we had, where everybody was concerned that we were edging towards it, but so slowly edging. When you think that the Americans have just done an instruction again in terms of what they're doing in terms of tariffs. We're talking about 266 per cent on imports from China.

[387] **William Graham:** Yes, that's what we were told this morning.

[388] **Edwina Hart:** Now, they've just done that. We think it's going to be retrospective as well, Ron, don't we, for the last 100 days from the date. They've taken that action very quickly, so why aren't the Europeans taking that action quickly? I think we've found that, this time, it was quite interesting, because sometimes the Europeans don't think the same about steel. It was of interest to us that the demonstrations in Brussels and the lobbying has now not just been UK lobbying, but other people within Europe lobbying about the issues around steel. So, what we're looking at really now, from the discussions there, is bespoke support, because the steel industry isn't just one thing, the steel industry is quite vast, with differences in the nature of what they produce and what they do, and what you need to do to help and assist. But, at the same time, we're also restricted by state-aid rules.

[389] **William Graham:** Quite so. I'll ask the question, then, Minister: in terms of the discussions you've had in terms of the European Commission, do you think now that they recognise the scale of the problem?

[390] **Edwina Hart:** Yes. I think it is quite clear that the Secretary of State felt yesterday that the commissioner did understand the issues when they'd had dialogue recently about it. We felt on tariffs—I should say that there was a feeling that tariffs really are the short-term solution to the issues around steel production, and that we have look at tariffs as being a short-term measure to allow us the time to scope what the steel industry should be within the UK, what the steel industry should be in Wales and what you require from the European steel industry. Because as Ron said, the mass production in China that we saw figures for yesterday is absolutely enormous, and that is an issue that's really come to the fore. And you add on to that as well possible Russian dumping of steel—you know, we're in a very difficult position on these issues. But we do think there's more on the tariff side, but they did feel there was an understanding from the Commission, and we did agree at the end of yesterday's meeting that all parties would sign up to a further letter to the Commission for further pressure to be brought to bear, because it is member-state pressure that is required with regards to this. Obviously, when you're out in Brussels when people are doing things and meeting officials, you can show your hand in terms of what you want to do, but it will be up to the member states, really, to press these particular issues.

[391] **William Graham:** Thank you. Eluned.

[392] **Eluned Parrott:** There are a few tariffs already in place. Where do you think the block is to speedy progress? You talked about the speed with which America has responded to the crisis. Is it with the Commission, or is there resistance in the Parliament? Is it coming from the council and, if so, which nation states are opposing speedy progress here?

[393] **Edwina Hart:** Well, I think it's a question of us pressurising from the UK for more speedy progress, as well as having the dialogue in Brussels. There is a feeling about that there should be more pressure brought to bear; we live in interesting times regarding Europe. So, I think it's important that we take advantage of the interesting times in terms of perhaps the pressure that should be brought to bear. And also as well, I think it's because not necessarily other European nations, I wouldn't say, until recently, Ron—.

[394] **Professor Loveland:** Certainly, the French and Germans are much stronger now than they were a little while ago.

[395] **Edwina Hart:** And that will make a difference, I think, in terms of the dialogue, but I think we've got to say, 'This has got to be done; otherwise we won't even have the luxury of talking about the future of steel, because there won't be steel'. So, we do need this measure really to grapple with. And we've got to start talking about the tariff percentages in this. It can't be just little miserly percentages in terms of tariffs. You know, when you think of the USA and what they put in on it, there are all those issues as well, because if you've already said, 'We'll put 20 per cent, 30 per cent'—you've really got to make a dent into this. And, of course, regarding some of the issues that are affecting the discussions on this, there was a lot of concern yesterday about China and market economy status, and all this wrapped into this discussion as well. And I know people say steel is an old industry, but when you look at new industry, steel is actually an essential industry in terms of the development of the economy and manufacturing.

[396] **William Graham:** Thank you very much. Rhun.

[397] **Rhun ap Iorwerth:** I note the 'Save our Steel' badges being worn by yourself and your official, and presumably you're calling on the UK and some members of the committee—. Presumably, you're calling on the UK and Europe to save our steel, but others, presumably, wave those badges in your

face as a Minister in Wales too. So, if we can turn to what specifically can be done here in Wales, perhaps you could give us an update on the work that has been done to date by the taskforce and the various work streams that you have put in place.

[398] **Edwina Hart:** Yes, I think we generally agreed in our discussions—. And I will probably issue a written statement later today, Chair, with an update on all the taskforce work and yesterday's meeting, which will be of assistance to the committee; I'm sorry it wasn't available to issue this morning.

[399] I think in terms of the taskforce, we've successfully looked at some of the issues in the taskforce, particularly on the training agenda and what we will do in terms of job matching. That's been successful, because I think we've done it before, as it were, in terms of what we did on the Murco taskforce; it was very easy to bring all those things together. We are content that some of the work we're doing in that area, when we have identified who the workers will be who'll be made redundant, can be put straight into place. And we also as well have relationships with other companies about how they might be anxious to take those workers on.

[400] We've also done quite a lot of work in terms of the supply chain, because we already know that jobs are going out of the supply chain in anticipation of what will happen in terms of Tata. So, it's very important that we look at the supply chain jobs and what help and assistance we can give there, not just in terms of keeping workers in employment, but also what other contracts and other work they can do. And these streams will be taken forward by people from industry, in conjunction with my civil servants and other partners. So, we've got Roger Evans leading the stream, who very successfully dealt with Murco, and we've got Gareth Jenkins from Industry Wales leading the stream on what we do with some of the supply chain. So, that agenda I think is progressing quite well.

[401] But, of course, there is a wider agenda here in terms of the dialogue that we're having with companies as well—what their investment needs are and what they require in terms of how they survive what is a very difficult position for them. Because we've got to recognise that there'll always be issues in steel, when you have variances in the rates of the pound and all these types of things, but it's about what keeps you on the straight and narrow over and above that. So, we are having quite interesting dialogue with companies about what we can do in terms of energy efficiency and

environmental issues, because those are the only issues that we can safely help and assist with without anybody raising state aid.

[402] Obviously in terms of business rates, we are looking at business rates and we've explored a number of areas, but we've got to have the Valuation Office Agency there. We've got to look at different classes of plant and machinery such as blast furnaces and others. So, there's quite a lot of detailed work there. Obviously, the Scottish Government did take a decision with regard to de minimis rules—I think it's worth about £150,000 for the steel industry in Scotland—but those were empty plants and we've got a lot more things in Wales. To be honest with you, it's nice in terms of a gesture, but in terms of the issues around Tata and others, this is really a fig leaf in terms of the type of assistance they would want. To be honest, we've never had any indicators from any of the steel companies that they wanted anything in the de minimis area. What they want is real discussion about real money coming in.

[403] So, that is progressing in terms of the work. It's quite a difficult area because it's not an area that's been explored fully before and we've got to bear in mind all the state-aid issues, but we are exploring it and we're doing a lot of work with the valuation agency on it. But the other issue is, as I indicated in my introduction, that we've got to, as well, look at the issues around what the UK might do on business rates. We spoke to the Minister yesterday, but we weren't anticipating anything perhaps until even the budget on this because that will be interesting—if the Chancellor is thinking of other ways around this, it might actually help and assist us.

[404] It would be nice to say: 'I'm going to do this and we've costed it and it's £20 million and we can do it', but I've also got to recognise that I've also got to be quite clear what the industry wants from me. I don't think that, until Tata have gone through this round, we'll be clear about what Tata wants. There are a lot of discussions going on in companies about what their requirements are and the companies are all extremely different—they're not all one. So, we're having that type of individual dialogue.

[405] **William Graham:** Before I come back to Jeff's supplementary, I just want to bring in Eluned because you're going to ask about business rates. Are there any particular points there?

[406] **Eluned Parrott:** Yes, absolutely. Clearly, we've heard this morning from the steel industry that business rates could be a significant contributor to the

package of help that they would want to see. You've had the devolution of business rates now for a period of time and, aside from the practical issues—and clearly those categories of plant and machinery are identified in the business rates valuation already, so once the decision is taken, I wouldn't have thought that the technical difficulties would be beyond the pale there—what other things are you looking at in terms of business rates to help industries such as steel, for example? Can you look at ways to give business rate relief to businesses that can demonstrate that they have very high environmental standards, for example, that they are recycling companies—those kinds of things?

[407] **Edwina Hart:** We've spoken to the valuation agency about the state of the industry, obviously, because that is relevant to business rates, and whether we can take into account the steel sector valuations. They've advised us that their preferred approach is not to apply an industry-wide allowance, and they are considering the state of the market and its impact and how each plant is operating when we look at the 2017 valuations. So, that can be looked at at that stage. So, there are ongoing dialogues across a range of issues.

[408] Of course, it's not just as simple as looking at the plant and machinery part of assessment, because it's an intrinsic part of the whole assessment, so we've got to look at all of the possibilities and feasibilities around this. I appreciate that we have had business rates devolved to us, but the focus until very recently in terms of business rates, of course, has always been on small businesses and what we were doing in this area. Because we're not just talking about steel when we talk about some of these businesses; we're talking about other large companies that might come into the remit, if you look in terms of plant and machinery, and there will be a cost issue in this. Of course, you've then got to look at the fairness of what you do in terms of cost, when you're within the block budget. If we benefit one group, what group do we disbenefit if we take any decisions?

[409] So, we are actively pursuing this issue, but it is extremely complex in terms of how we can see an end game to be able to get the type of assistance that they want. If the type of assistance they want is very large-scale, that will probably be very difficult. But if you start to unpick some of the issues that there are in steel about what they want in terms of environmental help and assistance and things like that, you can actually give money in terms of schemes like that, whether they be power plants or anything—isn't it, Ron—because that's one of the areas that we have looked

at. Do you want to say anything on power plants and things?

14:15

[410] **Professor Loveland:** Only on the environmental point, because we haven't mentioned that, as well as the activities of the Welsh Government per se, Natural Resources Wales are in extensive dialogue with steel companies looking at fair enforcement of new environmental regulations, and that clearly is very important in terms of the rate of spend of our steel companies.

[411] **Eluned Parrott:** Clearly the Sutton review gave you some indications of how some of these things might be achieved and that is some period of time ago. That was really looking at the practical changes that can be made to the current system, but are you looking—? Obviously our steel industry competes with other industries in Europe where they have a lower reliance on these fixed property taxes and perhaps a slightly higher rate of variable taxes dependent on the turnover or the profit of a business. Are you looking at those more radical options?

[412] **Edwina Hart:** Yes, I think we are looking at more radical options because I think the state of the steel industry and some of the high-energy-intensive industries does require looking at radical options. I think it'll be an issue for the next Government to think how they take these matters forward.

[413] **William Graham:** You had a short supplementary, Jeff.

[414] **Jeff Cuthbert:** Well, I thought I'd bring in my question now.

[415] **William Graham:** Well, I'll come back to Rhun, if I may, just to finish his questions, then I'll come to you.

[416] **Rhun ap Iorwerth:** There are a couple of specific issues that arose from what you were talking about earlier. I wanted to ask you about any further detail you're able to give us on bespoke support that you mentioned in your report to Celsa and to Tata.

[417] **Edwina Hart:** Some of these are discussions that are confidential with both companies in terms of what we're undertaking. I don't know if the companies have presented evidence today, Tata—.

[418] **Rhun ap Iorwerth:** They have, elements of which were confidential.

[419] **Edwina Hart:** And I think it's probably the same elements. It's not that we want to be difficult or awkward—we like to be open and transparent, but of course we've got to ensure that we play the right hand in terms of Tata, and Tata in the UK play the right hand in terms of their dealings with the company in Mumbai. Of course, there's all change in Tata, as you're aware, with Karl Koehler going, and a new management structure coming in. Tata were represented yesterday by the Chair, weren't they, at the group? And it's obviously a very difficult time with European board decisions and decisions elsewhere, so the discussions we've had have been at a plant and UK level, about what we might be able to do. Of course, we don't know what's going to happen in terms of what's going to happen in Scunthorpe, in terms of whether that sale will go ahead. Of course, if nothing happens there and Scunthorpe closes, in fact we're the only plant—aren't we—in the whole of the UK. And this is starting to hone in on some of the issues that we really do need to carry on discussing with the UK Government if steelmaking—if the only place it's going to be is in Wales.

[420] **Rhun ap Iorwerth:** The other specific question I had was—and we discussed this with the steel makers this morning—whether there was consideration being given to introducing a new round of ProAct as part of the package being put together.

[421] **Edwina Hart:** We're looking at all options within the training taskforce and so is Julie James. It's very important that we look at what we can do. We've had quite a lot of representations about how we're going to have to do higher-grade training for some of them as well to take them into other occupations. I've just come out with a company this morning, who are expanding, and who indicated to me, 'We'd like to train some of them when they come out, if you can help us with training', so this is very much the ongoing dialogue.

[422] We haven't wanted to say so much about some things because they are in a consultation period and the unions have asked us to respect the consultation period because people don't know where they're necessarily going to end up and that's really quite important. Because even though I think we realise that this is going to happen, nobody's sure who it's going to happen to or what. And also, Tata have been very conscious, I have to say, about what skills they're frightened of losing as well when the consultation period finishes. When there's an open offer to go, there are certain people that can't leave the process at all. So, it's not that I don't want to, Chair, but I

feel it would be safer perhaps not to go into too much detail on it.

[423] **William Graham:** We understand the context. Can I just ask Joyce on plants and machinery, which follows on from business rates?

[424] **Joyce Watson:** Well, you've already touched on it and I don't know if you have anything, really, to add more than what you've already said about the consideration of helping with the rates on plant and machinery.

[425] **Edwina Hart:** Yes. This is an area that does attract us very much indeed in terms of plant and machinery, but we couldn't just do it for steel, and that is the issue. And then you've got to look very carefully into the costs, what other multinationals would you help et cetera, and, of course, you'd have a lot of discussion about how you'd bring it in. Would you say, if they employed 500, 'Well it's that level of investment'? It's all this stuff that you would have to look at very carefully and that is the issue. So, it's exploring the options that are best suited when we need to, and also looking at the feasibility of making those changes with the Valuation Office Agency as well.

[426] **Joyce Watson:** Okay, thank you.

[427] **William Graham:** Jeff, would you like to—. Market economy.

[428] **Jeff Cuthbert:** Yes. You mentioned, in a response about 10 minutes or so ago, the issue of China being granted market economy status. When we heard earlier from the Community trade union, their quote was that, if that happened, it would be

[429] 'most likely the final nail in the coffin for UK steelmaking'.

[430] What's your view of the danger of such a decision?

[431] **Edwina Hart:** I fully understand why they've said that. Whether I'm qualified to answer the question, I'm not sure. My gut instinct tells me that they're right, but Professor Loveland might correct me on it.

[432] **Professor Loveland:** Some people have said it's an opportunity to deal with the Chinese situation. Clearly, the big problem facing the steel industry here and across Europe is the level of imports of cheap steel from China. Tariff protection is one way of dealing with it; another way is talking to the

Chinese and trying to persuade them not to do what they're doing. I'm told that those sorts of discussions could take place within the discussions on the market economy status.

[433] **William Graham:** Did you have a supplementary, Mick?

[434] **Mick Antoniw:** Yes. Isn't it partly the case that, in one way, there's a conflict, because with market economy status the financial and banking sector would be set to do extremely well in facilitating that? Of course, the argument might be put—I put it as devil's advocate—that the steel industry is being sacrificed on the altar of international finance and banking.

[435] **Edwina Hart:** I think, at the end of the day, there are a lot of conflicts, obviously, inevitably with the policy agenda. When you look at the relationship with the Chinese on nuclear, and what might come in terms of steel, I think people have raised that quite legitimately as being an issue. I think the discussion around the market economy, I seem to sense, is that they will use that as leverage to try to get some agreement on the steel position with the Chinese, and that is a negotiating thing, which I think should be left to the UK Government with all its representation, because very strong views have been expressed on this to central Government by the trade unions and others about what we need to do.

[436] Also, the issue on steel, as well, which is another issue, is that we have been assured that the quality of steel is the same. This is one area where I am asking officials now to explore the quality aspects of it. I've had anecdotal evidence—it's purely anecdotal—where a company has worked in another part of the world and has had to undertake remedial work and mentioned to me about the quality of steel et cetera. I wouldn't want to put it on the record in any way, but I am now going to facilitate some work to be done by the university to look at steel quality that's coming in to argue the toss. I want to be honest with you—I want to know that the quality of imported steel is as good as the steel that's being produced in the UK if it's going into highways, bridges and all that type of stuff. That is very important.

[437] So, these are discussions that are going on at a UK level. I understand exactly where the trade unions are coming from on this, because they feel that this dialogue, and other things that are going on, we should turn to our advantage, in terms of dealing with China. But the way that China's producing—. We saw charts on production in China yesterday—absolutely

massive production. It's also impacting where they're dumping as well, in south-east Asia et cetera, because then others come to dump to us. So, you know, it is a very difficult area, but Europe's got to wake up and smell the coffee on this, because, at the end of the day, we've got to have an industry in Europe that produces for Europe; it's very important. So, I'm sorry I couldn't be more helpful on that, Chair, but that's our understanding.

[438] **William Graham:** On this particular point, Mick?

[439] **Mick Antoniw:** Well, it leads into the issue of tariffs that I—

[440] **William Graham:** We're going to come to tariffs shortly.

[441] **Mick Antoniw:** Okay.

[442] **William Graham:** Are you happy with your answers, Jeff?

[443] **Jeff Cuthbert:** Yes.

[444] **William Graham:** Okay, thank you very much. David, to you.

[445] **David Rees:** Thank you, Chair. First of all, can I put on record my thanks to the Minister, because I know I've raised this on many occasions, obviously, as the local Member? Thank you for the answers and the work you're doing. Having said that, we've still got some issues to address. Enterprise zones—you said that you had a meeting yesterday in London. Was the issue of enterprise zones raised and do we have any further movement on that from the UK Government?

[446] **Edwina Hart:** Can I say that discussions are going very well with the Treasury in terms of the enterprise zone and the details? I've had the first business plan, and now the amended business plan, through the people who are bringing it together in Neath Port Talbot and the area, on behalf, really, of the city region. We're looking, now, at the sites that will be required, the boundaries that will be required, and what we can do. So, we then have to have further discussions with the Treasury around the specifics. I was, unfortunately, not able to have a meeting with the Chancellor yesterday; he once again sent his apologies that we couldn't have a meeting. But the dialogue is going on very well, in terms of the discussion on having enhanced capital allowances for that zone.

[447] I think it is important to recognise that a lot of work's got to be done on this before you establish it, but I'm pretty keen that we can make the case, I think, to have the enhanced capital allowances, and there's a tremendous amount of work going on with the local authority and its partners to deal with it.

[448] **David Rees:** Thank you, because the regeneration, clearly, is critical, particularly to those who are losing their jobs as of next week, effectively.

[449] **Edwina Hart:** And also to look at what new industries we attract into the area, because we must remember—and I think that the vice-chancellor of Swansea University was making the point—we've got a wonderful history in other industries within that area that we need to enhance and work on as well, as part of the enterprise zone, and we have to look at the opportunities of existing industries—what different changes in products they can make to make them fit for another marketplace. That's going to be the key in issues that are going to happen within the enterprise zone. But I also think that, adding to the enterprise zone issues on this, it is important as well that we've got that group that I indicated to you, headed by Lord Davies, that's going to actually look at the issues around getting more industry within the area. So, it's very important that we put every asset that we possibly can in to make this all start up. And Eluned Parrott will be pleased to know I'm looking at the governance arrangements for this as well, in terms of how we get the strong strategic links into the Swansea Bay city region. So, these are revised proposals now.

[450] We've got to look at things, as well, around the ability to attract large capital—how do you get that type of investment—the boundaries, how all that will work. So, this is an ongoing discussion. I hope it won't take us too long to resolve some of these matters.

[451] **David Rees:** Okay, thank you for that. Clearly, that's for regeneration and attracting new businesses. Can I go slightly off peak at the moment? We did talk this morning about the power station. You mentioned it yourself this afternoon. Is the Welsh Government looking at working with organisations such as Tata to develop and support jointly initiatives such as power stations that are environmentally supportive—they actually attract the waste energy from gases coming in, and, therefore, it ticks a lot of boxes, in one sense?

[452] **Professor Loveland:** We are having extensive discussions with Tata on their power station proposals.

[453] **David Rees:** We'll leave it at that, then. Could I go on to—? You mentioned also earlier the European globalisation adjustment fund. I met with officers from the directorate-general for employment, and they described options for me. Now, I'm very pleased to hear the UK Government's going for the fund for flooding, because it actually therefore sets a precedent, in a sense. Because, until this point, they'd never gone to this fund for anything. What discussions are you having with the UK Government to actually look at this? If they're not going to do it themselves, will they allow you to do it, because regions in Belgium are allowed to make applications to the fund?

[454] **Edwina Hart:** I raised it with Anna Soubry yesterday, because I was able to raise the issue about the change of heart on the flooding, and whether they'd be prepared to look at us making a bid, as they've allowed elsewhere. So, we'll be following that up in terms of the dialogue, because I am quite keen, if there is the cash available, that we should take advantage of it. I know it impacts on the UK Government's rebate, but that's quite marginal, really, in terms of the fact that I think it's a symbolic message that we're prepared to go and get the money to help and assist, and I think that that's really important at this difficult time. I know the unions are particularly keen, and the employers, that we maximise what support we can get from this particular fund. So, it was raised yesterday formally by me in the meeting with the Minister, and we shall be following this up.

[455] **David Rees:** Because I was informed the funds have got €165 million in it that are available to be used. To me, it's a crying shame; it's actually—I can't say the words, but it's annoying that the UK Government is not even considering it at this point, up until now, and I'm very pleased to hear that they may now be considering looking at this, because it is available.

[456] **Edwina Hart:** Well, I think it's important—now that they've changed their heart on the flooding, I think it's quite important that we continue to press home this point. It's very nice to have that money to use, and, when you think we've talked here about training and what we can do with people, there'll be some people who are highly trained coming out of Tata but who might require even further qualifications; the less well-qualified will require—. So, it's useful to have that help and assistance, because, if we are members of the European Union, we should take advantage of it in terms of what's available from Europe, as we've done in terms of European structural funds and as we're doing now, particularly in terms of the money we're

trying to get in for science from Europe to bolster our budgets in the UK.

[457] **William Graham:** Happy with that, David?

[458] **David Rees:** I'll stop there. I might come back afterwards.

[459] **William Graham:** Okay. Thanks very much. Mick, would you like to have a go on dumping and perhaps bringing in tariffs?

[460] **Mick Antoniw:** Yes. Minister, as you rightly say, tariffs are a short-term solution, but they are perhaps necessary to protect the industry in the short term from decimation. One of the concerns that's been expressed is over the methodology that's being used. The debate that's going on within the Commission at the moment as to how tariffs, and particularly with the lesser duty formula, and, of course, there are arguments about that—I wonder what your thinking is on that.

14:30

[461] **Edwina Hart:** Ron—we were talking about this earlier, weren't we?

[462] **Professor Loveland:** Yes. It seems to be a difficult one for the UK Government because they still seem to be in favour of the lesser duty rule and yet they are not happy with the level of duties that have been imposed recently on steel products.

[463] **Mick Antoniw:** In the discussions that have obviously taken place at the summits, because, obviously, the Government has opposed the change from the lesser duty, and the evidence we had today from the Secretary of State for Wales reiterates that support for the lesser duty—. What representations are being made both to the Secretary of State for Wales, but also at the UK Government business level in terms of that change? Because it seems to me absolutely fundamental that we have effective tariffs.

[464] **Edwina Hart:** We agree. We think that you've got to do it properly, as I indicated when I responded before. We don't agree with the UK Government's position on this, but we're not in isolation. A lot of people around the table in terms of the steel industry don't agree either. And, of course, they are aware of these issues from us and I think it's important that that's dealt with properly. Otherwise, we're not going to deal with the issue.

[465] **Mick Antoniw:** So, that's a matter that is being pursued directly with the UK Government to try and press for change.

[466] **Edwina Hart:** We know that the companies have been pursuing it.

[467] **Professor Loveland:** I think I would refer to—I think it was Monday's international Competitiveness Council in Brussels where these things were discussed, and it was made clear that the system needs to be modernised and that includes dealing with the lower duty issue.

[468] **Edwina Hart:** Yes.

[469] **Mick Antoniw:** Okay, thank you.

[470] **William Graham:** [*Inaudible.*—on procurement.

[471] **Mick Antoniw:** Do you want me to ask my subsequent—? Yes. Minister, on the procurement side, obviously, we've had a lot of evidence in terms of major projects and major steps that can be taken in respect of building up the market and the focus of the market whilst actually working within state rules. I'm wondering what the Welsh Government's position is in terms of the thought process that's going on now about how we may change that.

[472] **Edwina Hart:** I think that if we look at procurement generally, when we changed our procurement rules what we wanted to do—. I think we ended up with as much of 55 per cent of local companies where it had a very positive impact. That led to about £5.5 billion in terms of procurement. I think we've got to go further if we're going to deal with some of the steel issues. That was quite a lively discussion yesterday, because it's not just about the major infrastructure framework for us in Government; it's about what UK Government supports in terms of the major infrastructure framework and what projects it supports. So, I think there was a willingness yesterday on behalf of the UK Government. They've looked at what we've done. In fact, I think Anna Soubry commented on the work that we've done in Wales and what they are going to do in England. We are discussing now at official level how we can get even more information in.

[473] The concern, when contracts are being awarded or advertised, was what reference is made to what you can do rather than what you can't do. They were certainly going to look at that across the piece in terms of what local government might deliver across the piece. We can do it in the Welsh

context of giving advice, but it needs to be done in a much wider UK context about what advice can be given as well. So, we think it's very important that the tendering opportunities are known and are visible to Welsh businesses—that they understand what's going on in terms of procurement. Also as well, I think it's important that more people understand what is produced in Wales in terms of steel and products, because I'm not certain sometimes that companies who are going out to do work realise what the full offer is. When you talk to them, you're amazed at what is produced in Wales and what could be utilised in Wales and what, with further work, they could actually produce differently for other types of projects. So, all that work's got to be encompassed if we're going to get procurement absolutely right.

[474] So, as far as I'm concerned—and, I know, the Minister for finance—this will be a key element when we look at our infrastructure projects, but it's also looking at other big projects in Wales that aren't ours, like Wylfa, and, of course, what is going to happen in other big, large UK projects like Hinkley and others in terms of the usage of steel, I think. Fair comment?

[475] **Professor Loveland:** I would just add a technology comment to that. As well as the actual procurement issue, there is the issue of the products themselves. I was with the finance Minister on Monday when she launched the next phase of SPECIFIC, the Sustainable Product Engineering Centre for Innovative Functional Industrial Coatings, which we are supporting to the tune of some £15 million. That is developing new steel products, which people like Tata Colours in Shotton can produce, and could revolutionise the whole construction industry in using steel for fencing and for buildings in a way that's not done at the moment. I occasionally go to Australia, and steel is a standard material for residential buildings in Australia, and there's no reason that that can't happen here. So, through support for SPECIFIC, and other support we hope to put in the system, that is a way of making sure that there are better steel products from Wales. Minister, you mentioned that Richard Davies—

[476] **Edwina Hart:** Yes.

[477] **Professor Loveland:** Richard Davies is on the taskforce and is looking more generally at how we might support technology developments for steel companies.

[478] **Mick Antoniw:** So, is it the case that there are specific steps that are being taken at this moment in time in order to, I suppose, do two things: one

in terms of looking at projects being brought forward to satisfy the market, but also in terms of, I suppose, the contractors, the builders, all the people who actually use these products—that they are actually now being required. I think one of the issues that was raised was in terms of specifications of quality—

[479] **Edwina Hart:** That's right.

[480] **Mick Antoniw:** —as well as the social dimension aspect to it.

[481] **Edwina Hart:** Yes. Well, I can assure you that we're taking forward the projects we can in terms of the developments, with SPECIFIC being one of them. But also as well there's got to be a dialogue, I think, with the construction industry about the use of steel. Steel roofs are very effective, efficient and, of course, more cost-effective, aren't they, in terms of area? What more could we use steel products for that are produced in Wales? When I was up in Shotton, they were showing me pictures of houses in Belarus and Russia with the most beautiful coloured steel roofs that they were providing for. I'm not sure what the planners in Wales would say about some of these matters, but it was a good use of steel and what more we can use. I think that's what we've got to—. Richard is involved in the taskforce and we have a strand of work that's forward-thinking about the greater utilisation of steel. Because the market is changing, and it's very important that we pick up on the points that you've raised.

[482] **Mick Antoniw:** One of the points that was raised, of course, by Tata in their evidence—and it was reflected, I think, in just about universally across all the companies, and indeed the trade unions—is that, ultimately, it's about priorities. There's this quote from the Tata evidence, which says:

[483] 'The lessons to learn here are not about EU State Aid law and its application, but about governments' approach and priorities. These may boil down to general approach to interventionism, interpretation and application of "freemarket economics," than to the approach to EU law.'

[484] What they seem to be saying is that we've got to get our priorities right, that this is such a fundamentally important issue. Now, that's the message, I think, that seems to be coming that they don't feel that, at a UK level, that priority is actually there.

[485] **Edwina Hart:** I think there is a feeling abroad that there isn't—. If it

was banks, there would be a lot more interest than because it's steel and, I think, because we are much closer, probably, to steel here, because it's in our blood—you know, it's the nature of it—and in some areas in England they felt it close, but it isn't in some areas of England at all, steel production; people wouldn't know what a steelworks looks like. I think that there is an issue, and definitely a perception on that. That is very worrying because that is a feeling that is coming across from producers about: do you really want us here; do you really want an industry here; and what do you do to keep us here? I felt that quite strongly in some of the dialogue I've had. I see passion in some areas within the UK Government about it; I see less passion elsewhere. They are right: you've got to put your house in order, because we're talking about whether it's here or not now. We're not having the luxury of time to discuss what we can do. We've got to get on with some things now, otherwise that industry will be disappearing. It might be an old industry, but it's also a new industry.

[486] **William Graham:** Joyce.

[487] **Joyce Watson:** Talking about whether it stays or whether it doesn't, Minister—moving on in that vein—there will be, of course, a budget announcement next month. Osborne has already said it looks like it's going to be more of the same—more austerity—and yet there are figures from the construction industry that demonstrate that, in Wales, there is a 7.5 per cent increase in the public sector against a 2.5 per cent growth in the private sector. That's all down to projects that are in the pipeline. A lot of those projects, of course, are going to be dependent on steel and also early decision making on behalf of those projects. So, putting all that together, obviously linked with procurement and futureproofing of the industry, when you're having your conversations, Minister, have you discussed bringing some of those project decisions forward early, so that they might actually help to save the steel industry in the here and now?

[488] **Edwina Hart:** Well, obviously, the finance Minister is aware of the problems on steel and the need to maximise what we need to do with the industry, hence why she was the first one to change, almost, the procurement rules in the whole of the UK—

[489] **Joyce Watson:** That's right.

[490] **Edwina Hart:** —to ensure that we could do additional work on it. I think there will be a discussion that might have to be held in terms of

projects, but, of course, we're in a very difficult position on our capital budgets, and I wouldn't want to underestimate—. We have a programme of work that is in process, so what we need to do is ensure that the programme of work in process goes ahead with our budgets and then maximise the involvement of steel within that process.

[491] But it's not just my side of the house, in terms of transport—we've already taken those decisions about what we need to do, but, of course, there's expenditure and buildings on the health side and all the capital projects and things that local government are doing. So, I think it's a question of getting those together. But if we have a nice announcement of more capital money, we could certainly see where we were going, but it is very difficult, isn't it? There's a short-term need with regard to steel as well as the long-term future, and it's getting that balance. The short term can only actually be helped by some of the pressure the UK Government can bring on Europe and what they might be prepared to do to help centrally.

[492] **Joyce Watson:** Indeed. Finally, if I can, on procurement, when sending out the message, the other clear message that they wanted—that the unions all told us this morning—was to be mindful of the tier 1 contracts and that there's a feedback down the supply chain to those people procuring further down the chain, and that that message is consistent all the way through.

[493] **Edwina Hart:** That's why it's so important—the work that we've got to undertake in the supply chain to look at, not just their skills and work, but that all those other issues can be picked up on that. What the interesting thing is, Chair, and you must have seen it today, is you can't really put a single little bit of hair or a cigarette paper between the views, I think, of the trade unions and the employers on this, and, I think, the views of Government here, because we're all actually united in terms of what we want to do. When I chaired the first taskforce meeting, we did have some officials down from Whitehall, and they couldn't believe the unanimity—that there wasn't a row going on, that we weren't blaming each other or doing anything, we just wanted to get to consensus about taking things forward, and I think it'll be excellent when you produce your report that we've got commonality across here as well about how we need to take things forward and to fight the corner of the steel industry.

[494] **William Graham:** Oscar—energy.

[495] **Mohammad Asghar:** Minister, my question is on energy prices,

actually, and how the UK Government could further assist the steel industry in obtaining a level playing field with EU competitors on energy prices.

[496] **Edwina Hart:** Funnily enough, when we were talking about energy prices yesterday, there was a welcome, wasn't there, from some of the companies that have put into this scheme that the Chancellor had introduced, that they were having some money back, and they were pleased? They'd have liked more money and would have liked it sooner, but there was a general consensus, I think those people said—the scheme was there and they were doing it.

[497] Their concern is that we've done this scheme and we've tried to help a little bit, but our continental partners will already be helping their industries quickly, again, in terms of what they're doing. I think this is a debate to be had at a European level. I don't know if you agree, Ron. There's got to be an equal market across the piece. I think this is the key to it, because, you know, how do you deal with it when you've got such enormous differences in what they're paying? Did they say something like 24 per cent? I forget—there was a figure mentioned yesterday.

[498] **Professor Loveland:** The price in Germany was about half what the price was in the UK, but the French, as you mentioned earlier, are going even further.

[499] **Edwina Hart:** Going even further in terms of doing it. So, the UK Government, you know—obviously, it'd be nice if they could help and assist. I think, if you've, say, got issues like the power plant and everything and doing things like that, it's got to be of help and assistance to the diversification of how they have their energy and how they could do things. Should there be an approach taken centrally to all of this, I think, Ron, is one of the areas.

[500] **Professor Loveland:** The other thing that was mentioned yesterday was that the Department of Energy and Climate Change's controversial sort of statement that they believe that the rebalancing of the energy system towards gas—

[501] **Mohammad Asghar:** No, energy prices in the world market are going so low at the moment. Maybe the other countries in Europe—they're probably much ahead of us, or maybe ahead of us, in reducing the prices for the energy consumer companies. Also, in Germany, the industry pays a little less than the consumer—

[502] **Edwina Hart:** Yes, the burden goes on the consumer in Germany.

[503] **Mohammad Asghar:** —so, that sort of attitude is one. Final question, Minister: what impact has the time taken to fully implement the compensation package for energy-intensive industries had on the Welsh and UK steel industry, please?

14:45

[504] **Edwina Hart:** I think, as I indicated to you, we've been pressing about having a package and doing something for a number of years. It is late coming to the table, but it's welcome coming to the table. Of course, they had a period of time when they had to apply, and at one stage we didn't know anybody who had the cash. We think some people have had the cash now. So I don't want to be churlish about it, but it is too little too late, and I think it should be a more generous scheme. Of course, it's focused on all high-energy users, so that's the cake even smaller, in many ways, but of course you've then got to look at the state-aid issues and what you do, and they have to have clearance from the European Union to do the scheme.

[505] **William Graham:** Rhun and then Mick.

[506] **Rhun ap Iorwerth:** On an issue of innovation, I was very interested this morning to hear Liberty Steel say that, in response to the fact that they were having to pay much more per kilowatt hour for their power here than companies in continental Europe, much of it because of the charges of utility companies, they established their own utility company. Now, you'll be aware that I'm an advocate of setting up a Welsh utility company, specifically in order to do this kind of thing. How do you respond to that in the context, specifically, of a way of tackling the steel energy crisis?

[507] **Edwina Hart:** Liberty Steel are a very interesting company, of course, in terms of the assets that they own, and they are able to deal with some of the issues around their own production of energy. Of course, we have a good relationship with the company and have discussions with them. I think all this discussion is now up for grabs in terms of how we look at the energy agenda. Some of the announcements—. How would I describe it? Nobody's been happy with some of the announcements that have come out of the UK Government in terms of it. We've only got to look at what happened and the whole issue around renewables, what's going on now et cetera—the policy

seems to vacillate. There doesn't seem to be any clarity. So, I think it's important that, in the next few years, we do look at what we're able to do here to help and assist industries and companies.

[508] I also think there is a real issue about local production of energy, and that we shouldn't be making decisions anywhere that impact, perhaps, on local production into communities and doing things, which I also think will be very important as part of what you can do.

[509] **Mick Antoniw:** There's a bit of concern about the confusion that exists over what the disparities are. I did a rough calculation on some of the parliamentary figures, which vary from some of the other European figures, but on that basis we are almost 254 per cent more expensive than Sweden, 121 per cent more expensive than Germany and 166 per cent more expensive than the Czech Republic. Perhaps the best figures are the ones that Tata gave us, where they say that the cost of a megawatt hour here is €48, whereas in Germany it's €27. So it's almost a 2:1 ratio.

[510] **Edwina Hart:** Yes, the Tata figures resonate, and also the detailed figures that Celsa undertook. I don't know whether they put them in the public domain at all.

[511] **William Graham:** We have them confidentially today.

[512] **Edwina Hart:** Yes, you do, of course, because that's real stuff when you're having it from the company.

[513] **Mick Antoniw:** The concern seems to be, though, in the evidence we've got from the Secretary of State for Wales, and the evidence Anna Soubry's been giving when she's intervened in debates on it, is that we don't actually have any significant appreciation of the energy issue, which has been raised for about the last four or five years.

[514] **Edwina Hart:** Can I say, we understand, because we've discussed it with the companies? We've done it on the basis of what those companies have told us, because they, at first hand, can give you an analysis across the whole of Europe on what they're doing in terms of energy costs. But your concern is obviously that the UK Government, perhaps, doesn't have that level, but I would have thought that the steel industry has presented those figures in detail to the UK Government, because I know Celsa did, in terms of the impact across the plants in Europe, and I'm sure Tata would have done,

Ron.

[515] **William Graham:** Eluned.

[516] **Eluned Parrott:** Firstly, on the energy point, clearly the opportunity to invest in energy production gives companies control over the carbon emissions from the energy element of their production as well as, then, the production element of their production, if you see what I mean. That is a potential benefit in other ways. What support could be given to businesses that wanted to invest in that kind of energy production privately, outside of a utility company for Wales, say?

[517] **Edwina Hart:** Well, I think we're looking at how we help and assist companies in terms of what they want to do on energy, Ron, aren't we?

[518] **Professor Loveland:** Because of the state-aid rules, it's quite difficult in terms of financial support. What we want to do is improve the advice to which they have access.

[519] **Eluned Parrott:** We were told by the steel industry, I think it was, this morning, that some investments have been made in other countries in Europe with support from Government into greening production, and that potentially energy is one of those areas where production could be more environmentally friendly. Have you discussed that with the industry at all?

[520] **Professor Loveland:** We clearly do, but we have to bear in mind the lever lies with the UK Government in terms of subsidies under the renewables obligation. But, if you take Liberty, a very sensible thing would be for them, since they also own the Uskmouth coal-fired power station, to convert that to biomass, but that is something that doesn't particularly gain favour with DECC at the moment, because they are worried about the sustainability of large amounts of imported biomass. So, we are involved in those discussions, but it's a complicated area.

[521] **Edwina Hart:** But the lack of clarity, I think, from DECC, and the changing of minds on energy policy doesn't help this discussion.

[522] **Eluned Parrott:** Clearly, environmental considerations are one of the key selling points that British steel can have over competitors like China, but not necessarily over competitors from other parts of Europe. I wonder what audit you have made of, if you like, the key selling points of Welsh steel if we

wanted, through the procurement process, to ensure that we are setting the bar so that it benefits Welsh steel, as opposed to perhaps competitors from other places, and not necessarily China.

[523] **Edwina Hart:** Well, I think we look at what has been produced within Wales and the quality. There will always be a quality element that you've got to take into account in terms of any contract. What we are trying to do is to establish what is being produced and where it's produced. For instance, in terms of nuclear, Celsa would produce the steel to go into nuclear, and that's quite local, really, in terms of going across, whether to Hinkley or up to north Wales. So, these issues are taken into account, but some of the large contracts are not our contracts; we can only indirectly influence them in terms of what we want to do, hence why we raise these issues with the UK Government about the importance of them looking at the large infrastructure contracts that they have.

[524] **William Graham:** David.

[525] **David Rees:** Thank you, Chair. Just a couple of points. Living in the community, I understand the worries and the feelings of the whole community—not just the steelworkers, but the community around it. You've indicated a little bit about the supply chain element; are you looking also at the procurement aspect to help the supply chain companies as well, so that it's not just the steel and if they're losing business from the steelworks, they're able to look at ways to get business elsewhere?

[526] **Edwina Hart:** Yes. Because we have it looked at by business—they're advising us—they will look at all these aspects of it. I think an important lesson we learned from Murco was to use people in the industry to actually advise us and take the discussion groups forward, because they had hands-on experience of the impact of these things. So, all these issues need to be looked at. It's not just manufacturing bits into Tata, there's a whole range of services that are provided locally that we're going to have to look at.

[527] **David Rees:** Can I ask another question? Obviously, there are, because of the uncertainty, various messages and allegations that are being published within my own community, with one indicating that you, or the Welsh Government, were asleep at the wheel, because perhaps you hadn't contacted the EU often enough beforehand, yet evidence today clearly shows you're not asleep at the wheel, and that, perhaps, the BIS report on the UK Government being asleep at the wheel is more accurate. You also talk about

some of the officials in the UK Government starting to give you a bit more confidence, in one sense, regarding their understanding, but I'm going to ask the simple question: does the Secretary of State understand it, because he is the man who is going to have to drive this forward politically? Have you got confidence that he will take those levers that the UK Government have to deliver to ensure a safe future for our steel? Is he going to deliver it? That's the question.

[528] **Edwina Hart:** And you're talking about the Secretary of State for BIS.

[529] **David Rees:** Yes.

[530] **Edwina Hart:** BIS in those terms—. I don't want to be harsh in my judgment because, at the end of the day, this is a very difficult issue. I know, from my dealings with Anna Soubry, that she is wholeheartedly behind it in terms of what she feels about the steel industry, and I think the unions would have told you the same: that she does understand the issues, and we have a very good dialogue. I don't have that level of dialogue with the Secretary of State in BIS; I have the dialogue with Anna Soubry.

[531] Certainly, in terms of the meeting, I felt yesterday there is an understanding, but perhaps not an understanding of the urgency as to how we need to deal with some things in the European context. I think it's important as well that—. I'll be absolutely honest, I feel if it was me, I'd have done more, but then steel isn't with us—is it—and I just wish that the levers were with us here and we could have the engagement here, because I think we would have done more.

[532] **William Graham:** Thank you very much. Minister, I think this is your last time to appear before the committee.

[533] **Edwina Hart:** Oh, I'm sure it's not.

[534] **William Graham:** May I thank you very much for your readiness to attend, the helpful answers and, sometimes, the candour with which you've given those answers, and also, of course, for implementing all the recommendations this committee has made over this Assembly? Minister, we're most grateful to you for all that you've done. I wonder if Members would just join with me on showing a brief appreciation in our usual fashion. [*Applause.*]

[535] **Edwina Hart:** And can I thank you very much, Chair, and the committee, for the courteous way you've always dealt with me in discussions? We don't always agree, but I think we always have an open and transparent dialogue, and I do try my best to implement your recommendations.

[536] **William Graham:** Thank you very much, Minister. The public meeting is now closed.

Daeth y cyfarfod i ben am 14:55.

The meeting ended at 14:55.